



CALIFORNIA BUDGET PROJECT

# Uncharted Waters:

## Navigating the Social and Economic Context of California's Budget

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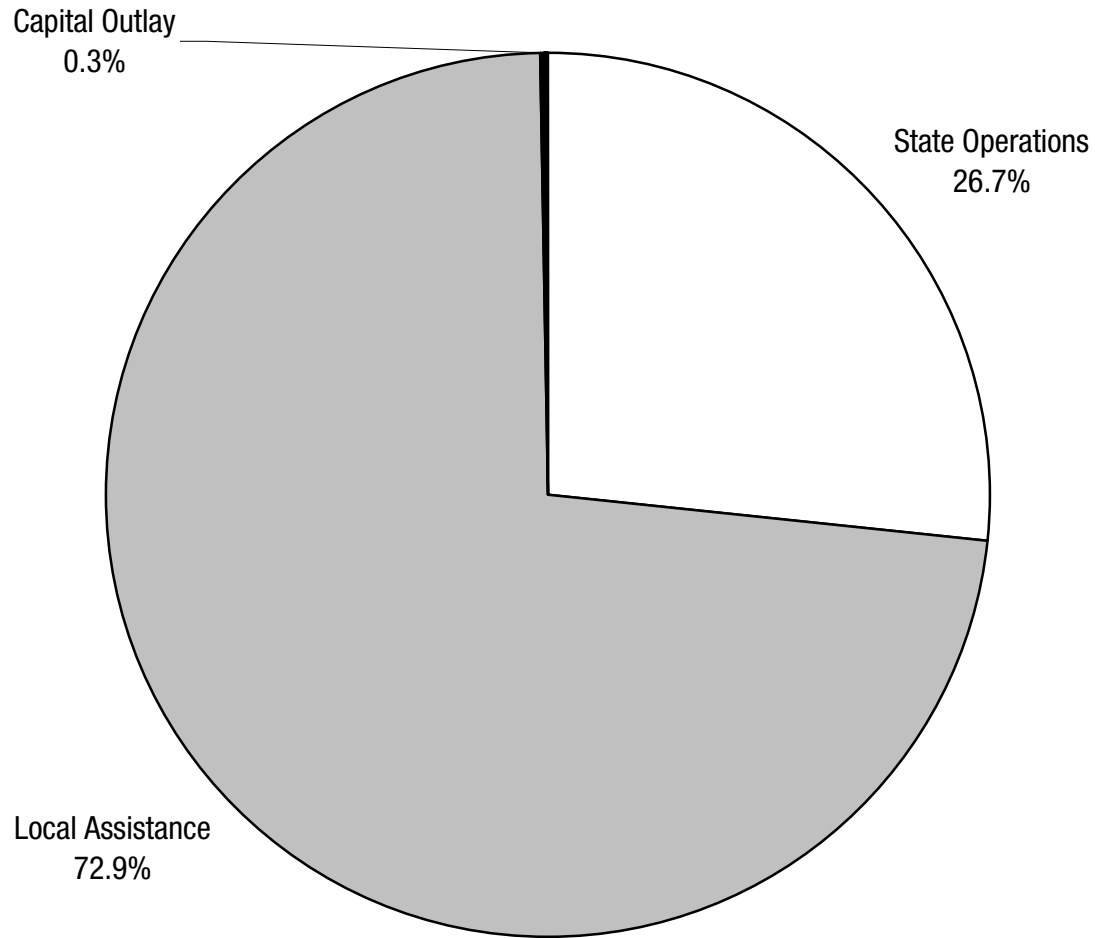
A PRESENTATION BY  
THE CALIFORNIA BUDGET PROJECT  
March 2009

# Why Do Budgets Matter?

- Nearly three-quarters of every dollar spent through the state's General Fund flows to individuals, health providers, schools, and local governments.
- The decisions made in this year's budget debate affect the daily lives of all Californians – from the quality of our public schools to the roads we drive on and the air we breathe.
- Many of the decisions made as part of budget deliberations – such as changes in tax policies, the “base” for the state's school funding guarantee, and decisions to place constitutional limits on the budget and budget process – will affect Californians for decades into the future.

# Most State Dollars Go to Local Communities and Individuals

## 2009-10 Proposed General Fund Spending



Note: Excludes unclassified spending.  
Source: Department of Finance

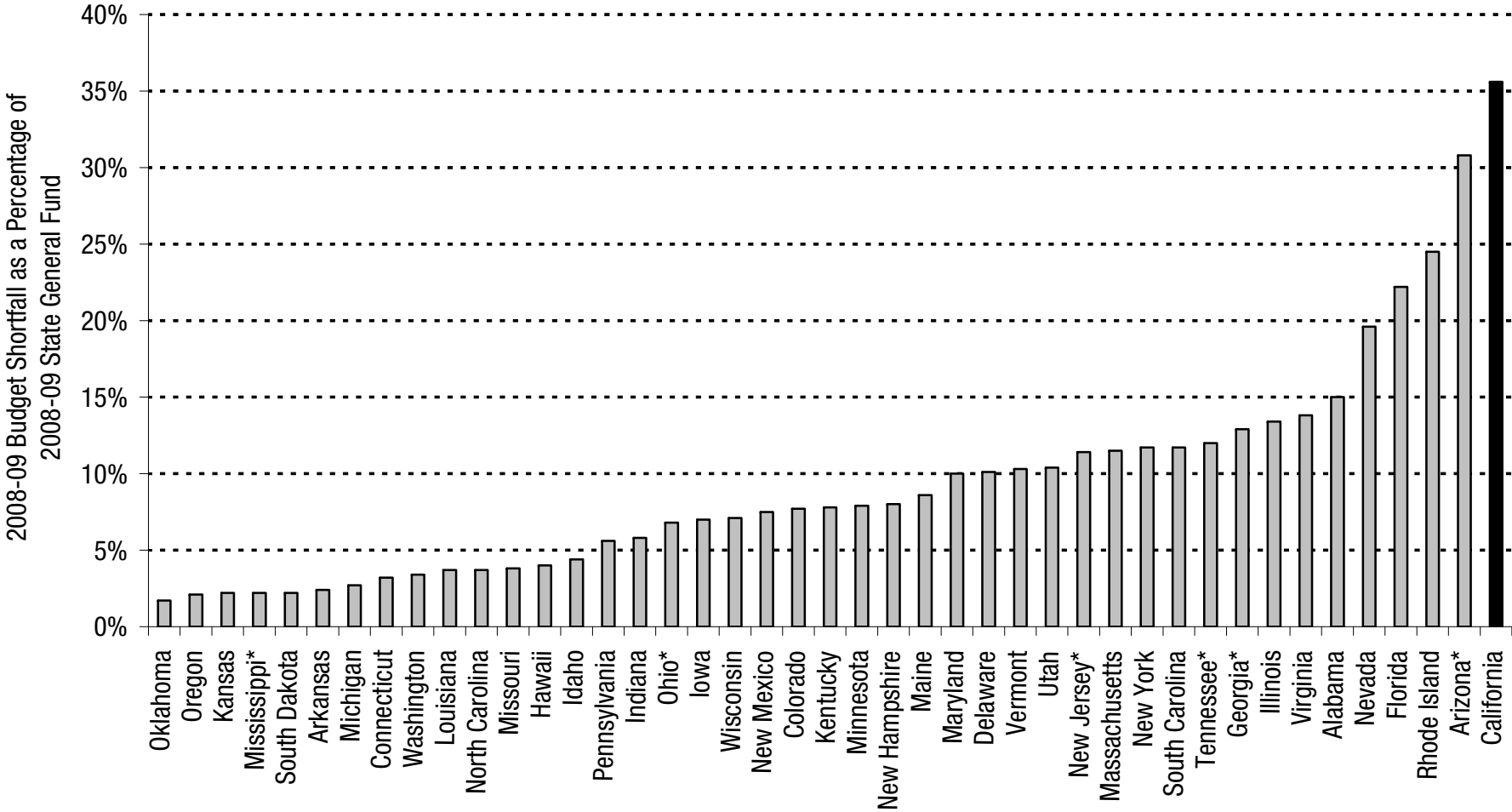
# The Bottom Line

- The recent budget agreement addressed a \$40 billion budget shortfall in the remainder of 2008-09 and the 2009-10 fiscal years.
- The shortfall resulted from a deterioration of current and budget year revenue collections due to a slowing economy, modestly higher-than-anticipated current-year spending, and a structural imbalance between the cost of programs and services and the revenues raised by the state's tax system.
- The budget agreement included \$41.6 billion in “solutions” to close the gap and end 2009-10 with a \$2.0 billion reserve.

# How Big Is a \$40 Billion Budget Gap?

- To close the projected \$15 billion gap in the remainder of 2008-09 and the \$25 billion gap projected for 2009-10 solely through spending cuts is equivalent to:
  - Eliminating General Fund support for schools, community colleges, resources, and environmental protection programs for the remainder of 2008-09 beginning March 1<sup>st</sup>; and
  - Eliminating General Fund support for corrections, CSU, UC, CalGrants, IHSS, CalWORKs, and SSI/SSP for all of 2009-10.

# California's Budget Gap Is the Largest Among the 43 States With 2008-09 Budget Shortfalls



\* Reflects the lowest estimated 2008-09 budget shortfall.

Note: Includes shortfalls identified both prior to and after adoption of states' 2008-09 budgets.

Source: Center for Budget Policy and Priorities

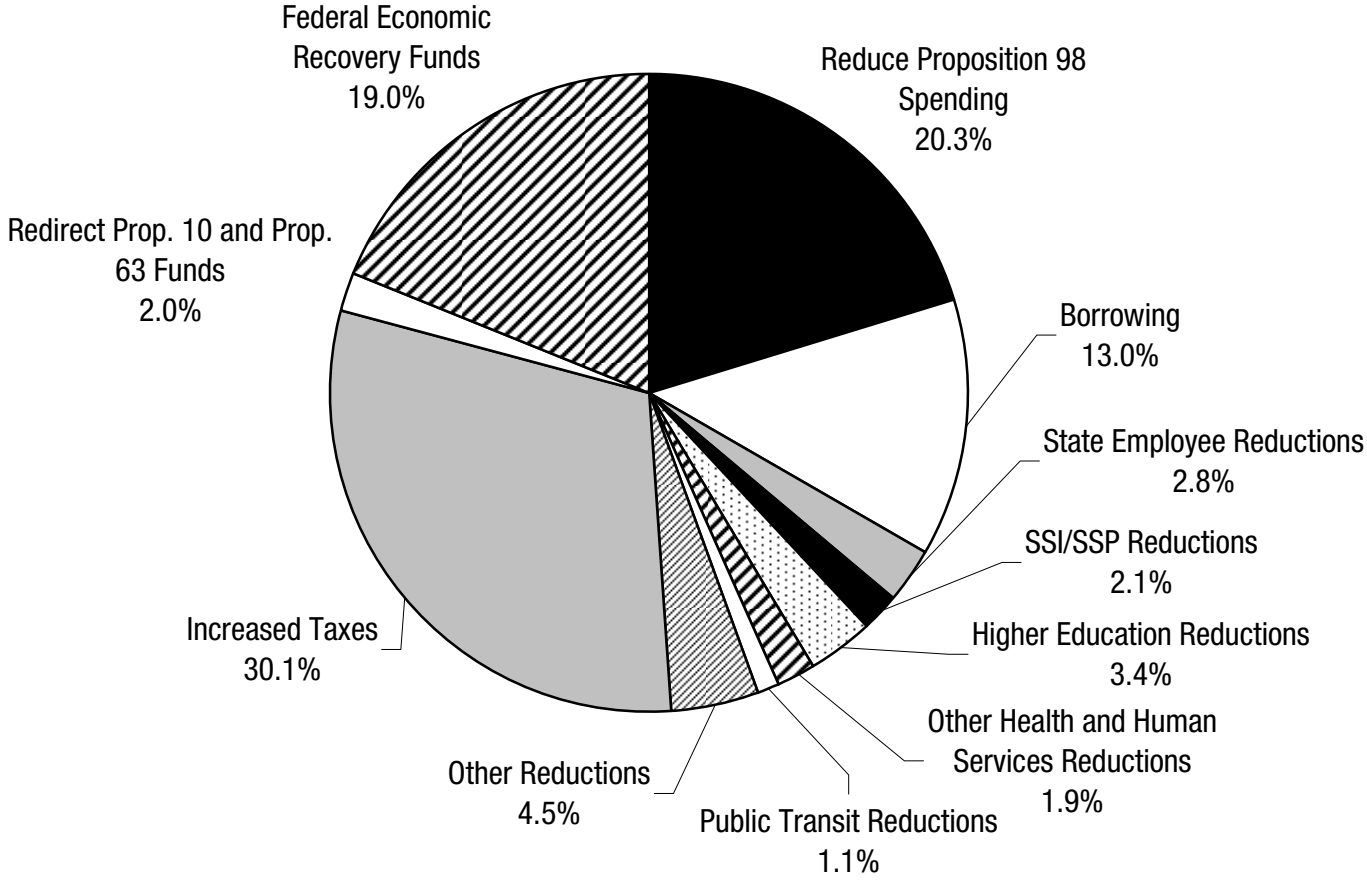
# The Big Picture

- The 2008-09 budget crisis was bigger, different, and more challenging than any that California has faced before. The 2009-10 shortfall was even bigger, more different, and even more challenging than that of 2008-09 due to the impact of the recession and the state's cash flow problems.
- California's budget problems have been exacerbated by “solutions” to prior crises that impose future costs, earmark revenues, and otherwise limit options for balancing the budget.

# How Did the Budget Agreement Close the Gap?

- The budget agreement closed the gap by:
  - Cutting General Fund spending by \$15.8 billion;
  - Raising revenues by \$12.5 billion, primarily through a temporary 1.0 cent increase in the state’s sales tax rate;
  - Borrowing \$5.4 billion, primarily by issuing bonds that would be repaid out of future lottery proceeds; and
  - Using \$7.9 billion of funds from the federal economic recovery bill.
- The budget agreement includes a “trigger” that would eliminate \$947.7 million in proposed spending cuts and \$1.8 billion of the proposed tax increases if the state receives at least \$10 billion in flexible funds from the federal economic recovery bill.

# How Was the Budget Balanced?



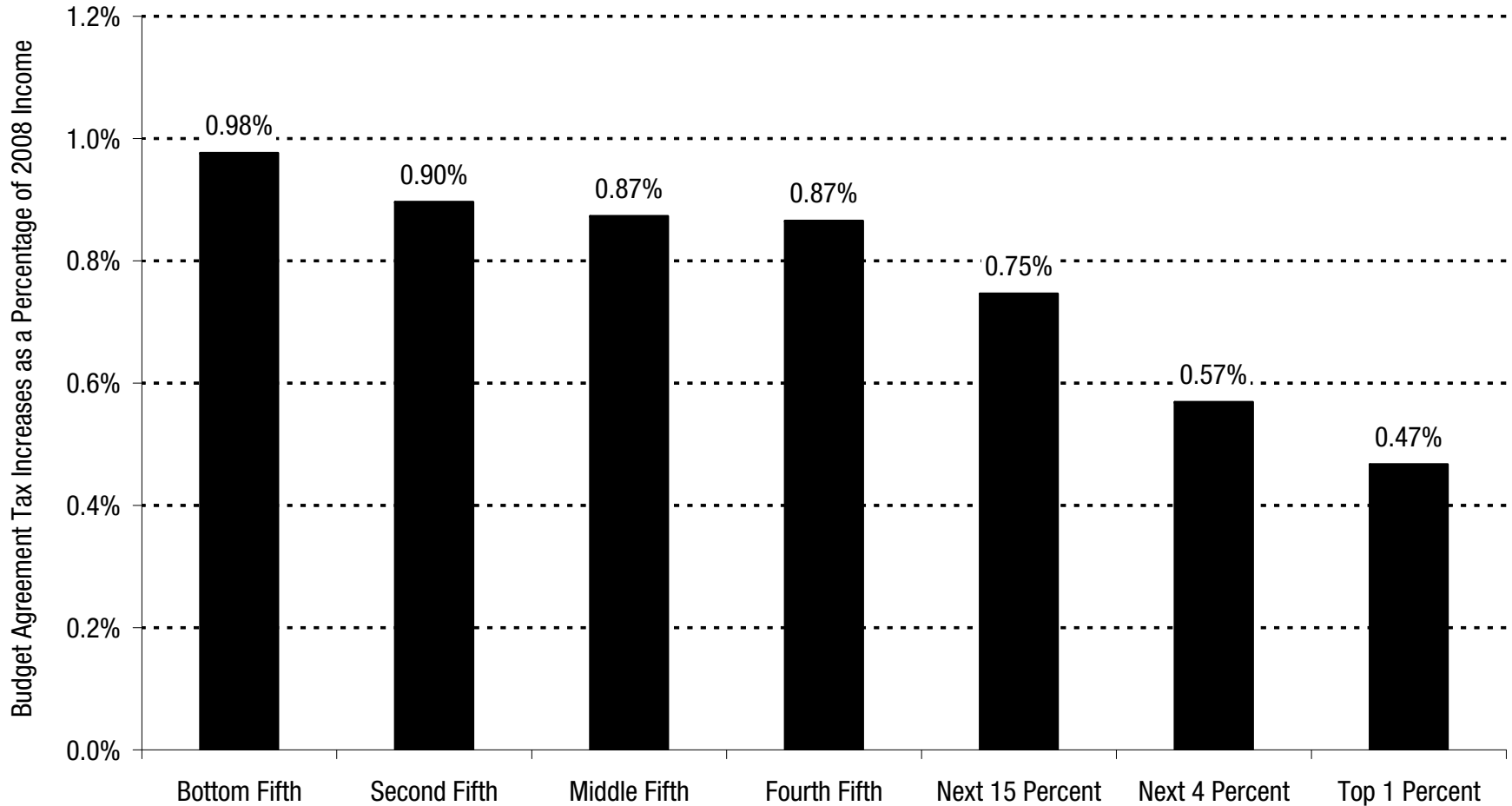
Total Solutions = \$41.6 Billion

Source: Department of Finance

# Budget Agreement Includes \$12.5 Billion in New Taxes

- The increases will be in effect for three to four years if voters approve Proposition 1A or two years if voters reject the measure. Specifically, the budget agreement:
  - Increases the state sales tax by 1 cent, raising an estimated \$1.203 billion in 2008-09 and \$4.553 billion in 2009-10.
  - Increases the Vehicle License Fee (VLF) rate from 0.65 percent to 1.15 percent, except for large commercial vehicles, raising \$345.9 million in 2008-09 and \$1.692 billion in 2009-10.
  - Increases each of the state's personal income tax rates by an additional 0.25 percentage points, raising an estimated \$3.658 billion in 2009-10. However, this increase would be cut in half, to 0.125 percentage points, if the state receives a specified amount of federal funds by the end of 2009-10.
  - Reduces the size of the dependent credit claimed by personal income taxpayers to the same level as the personal credit, raising an estimated \$1.440 billion in 2009-10.

## Budget Agreement Tax Increases Will Disproportionately Impact Low-Income Taxpayers



Source: Institute on Taxation and Economic Policy

# What Were the Deal Points?

- In order to achieve the required two-thirds vote for approval of the tax increase, the budget agreement included:
  - A spending cap and modified budget reserve that will go before the voters as Proposition 1A in May;
  - Changes to state environmental, contracting, and labor laws;
  - A ballot measure that would prohibit legislative salary increases in bad budget years that will go before the voters in May;
  - A ballot measure that would create an “open primary” for state office holders that would go before the voters in June 2010; and
  - Three temporary and one very large permanent tax cuts.

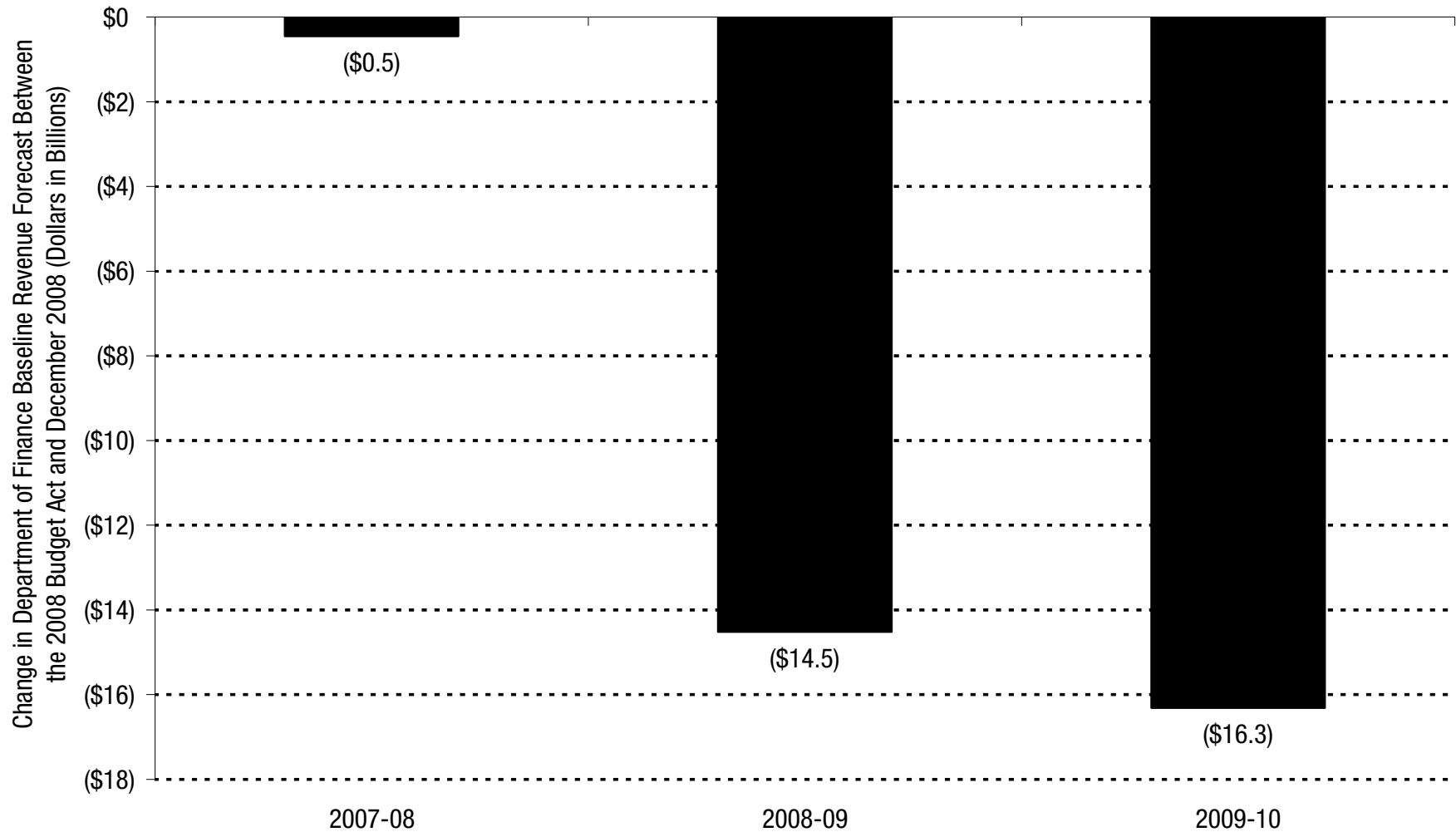
# Seven Measures Are Headed to the Ballot

- Six measures will appear on the May 19, 2009 special election ballot:
  - Proposition 1A would modify the state’s budget reserve and limit future spending.
  - Proposition 1B would require the state to make \$9.3 billion in supplemental payments to school districts and community colleges in lieu of what may be owed for “maintenance factor” in 2007-08 and 2008-09.
  - Proposition 1C would authorize the sale of bonds backed by lottery proceeds.
  - Proposition 1D would divert funds raised by Proposition 10 of 1998.
  - Proposition 1E would divert funds raised by Proposition 63 of 2004.
  - Proposition 1F would eliminate salary increases for state elected officials in years with a projected budget deficit.
- The seventh measure would create an “open primary” system which will be placed on the June 8, 2010 statewide primary ballot.

# How Did Things Get So Bad So Fast?

- Revenue forecasts for 2007-08, 2008-09, and 2009-10 have been downgraded by a total of \$31.3 billion since the 2008-09 Budget was signed into law in September.
- Spending is modestly higher than anticipated due to lower-than-expected local property tax collections, which boosts the state's costs for education; firefighting costs; and caseload-driven increases in health and human services programs due to the downturn in the economy.
- California faces an ongoing imbalance between revenues and expenditures that is exacerbated by the state's past reliance on one-time "solutions" to balance the budget and by debt service costs attributable to deficit-related borrowing.

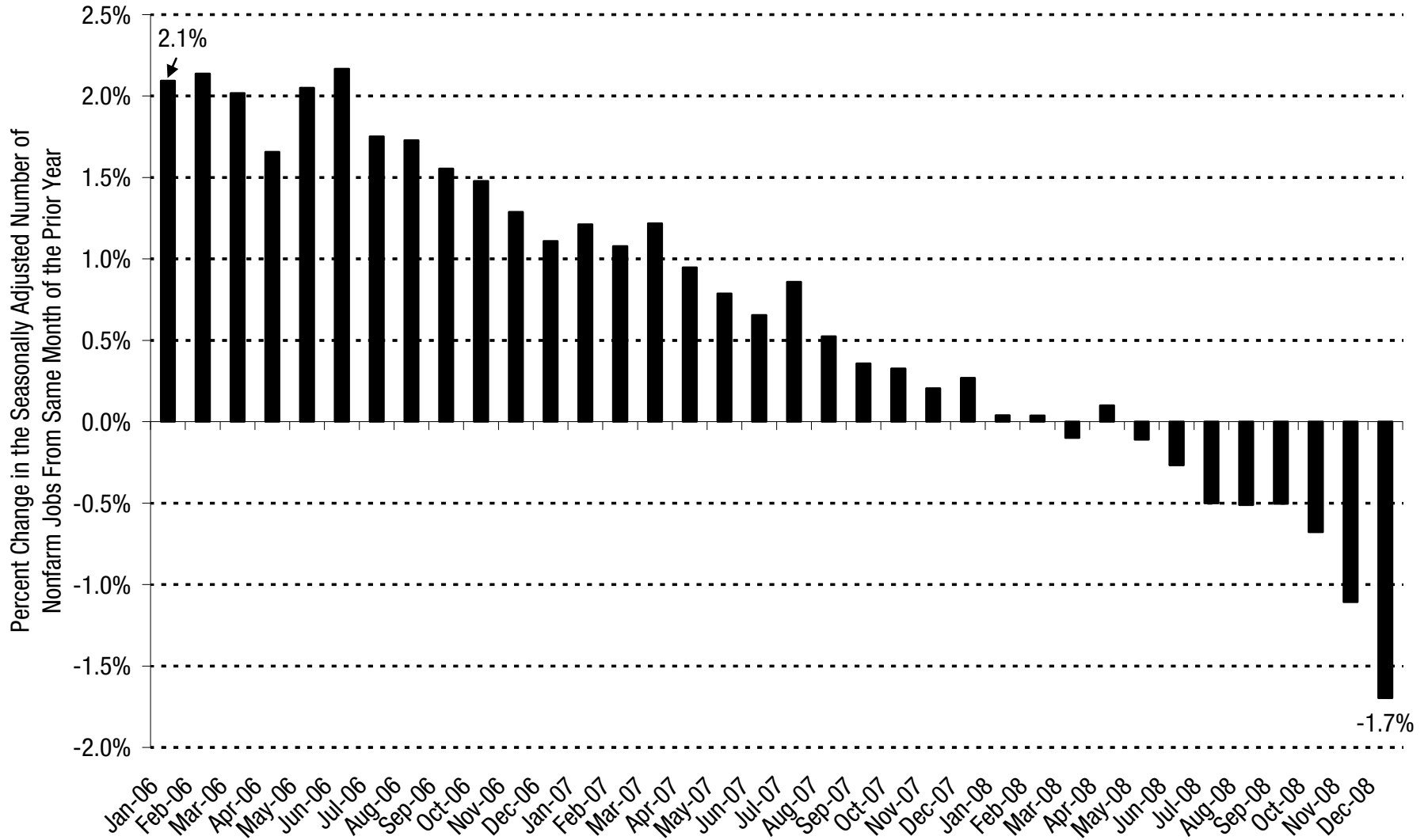
## Anticipated Revenues Are Down by \$31 Billion Since September



# The Economy Has Weakened Substantially

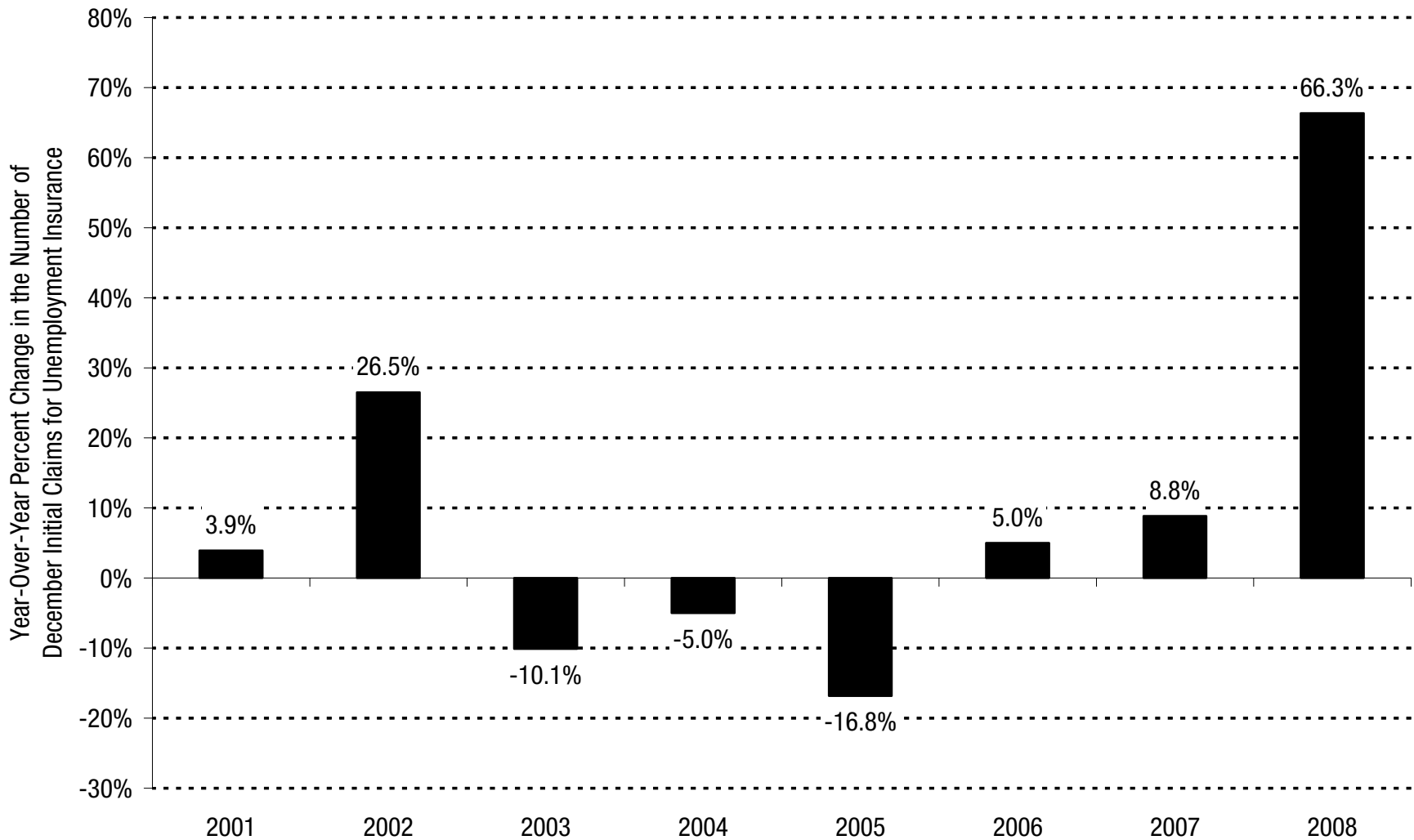
- Both the state and the nation are in what many economists expect to be the deepest recession in the post-World War II era. The recession, which began in late 2007, has led to substantial job losses, a sharp rise in unemployment, and a drop in consumer spending.
  - California’s job losses have accelerated in recent months. Approximately 60 percent of the 257,400 jobs lost in 2008 were lost during the last three months of the year.
  - California’s unemployment rate hit 9.3 percent in December 2008, up from 5.9 percent in December 2007, and new unemployment claims spiked by 66.3 percent during this period.
  - National personal consumption spending dropped by 3.8 percent in the third quarter of 2008 – the largest decline since 1980.
  - California’s median home price plunged from a peak of \$484,000 in the spring of 2007 to \$249,000 in December 2008.

## California's Job Losses Accelerated in Late 2008



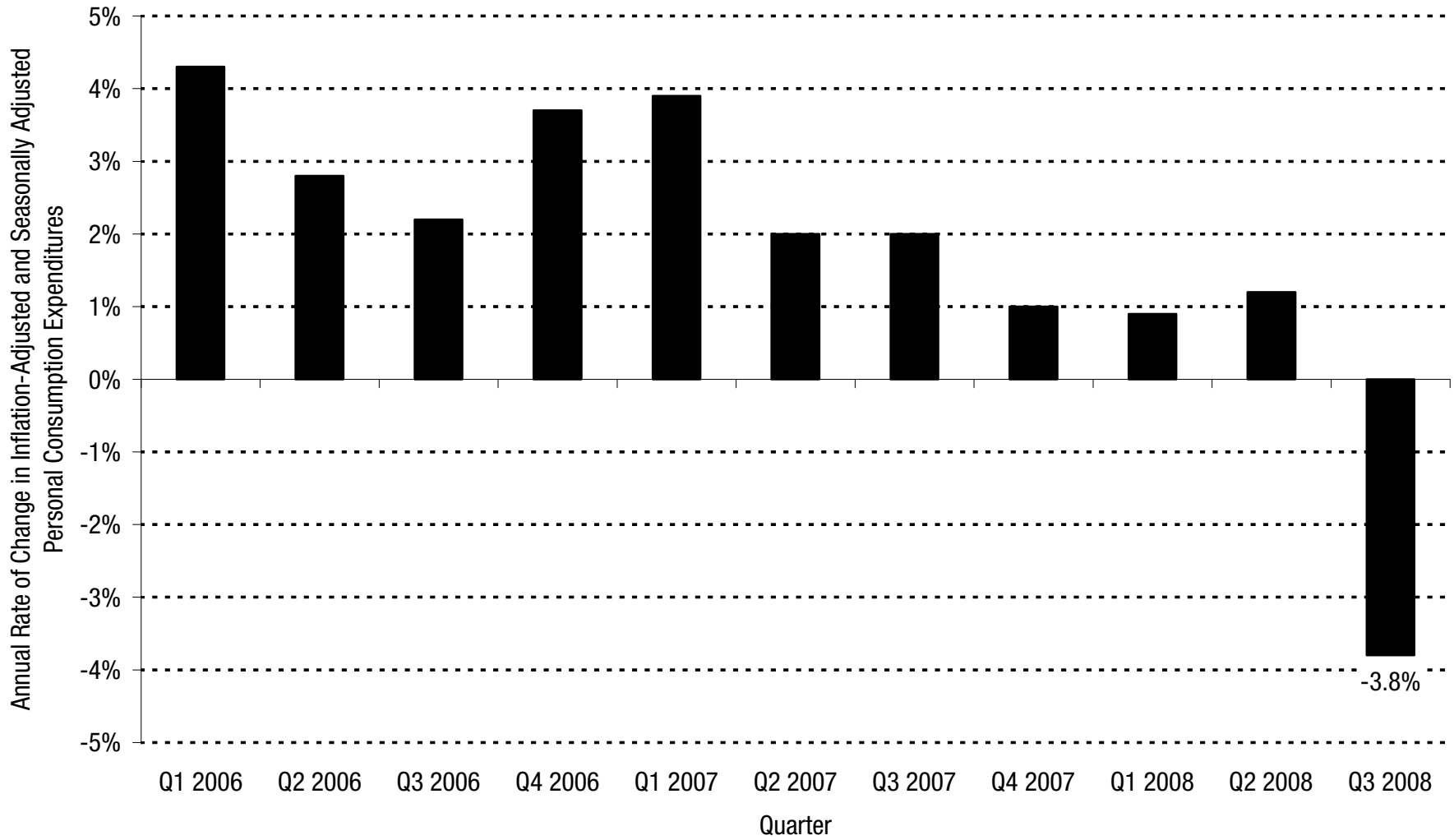
Source: Employment Development Department

## New Unemployment Insurance Claims Have Spiked Over the Past Year



Source: US Employment and Training Administration

## Personal Consumption Spending Fell in the Third Quarter of 2008 by the Largest Percentage Since 1980



## California's Median Home Price Has Plunged Since Peaking in Spring 2007

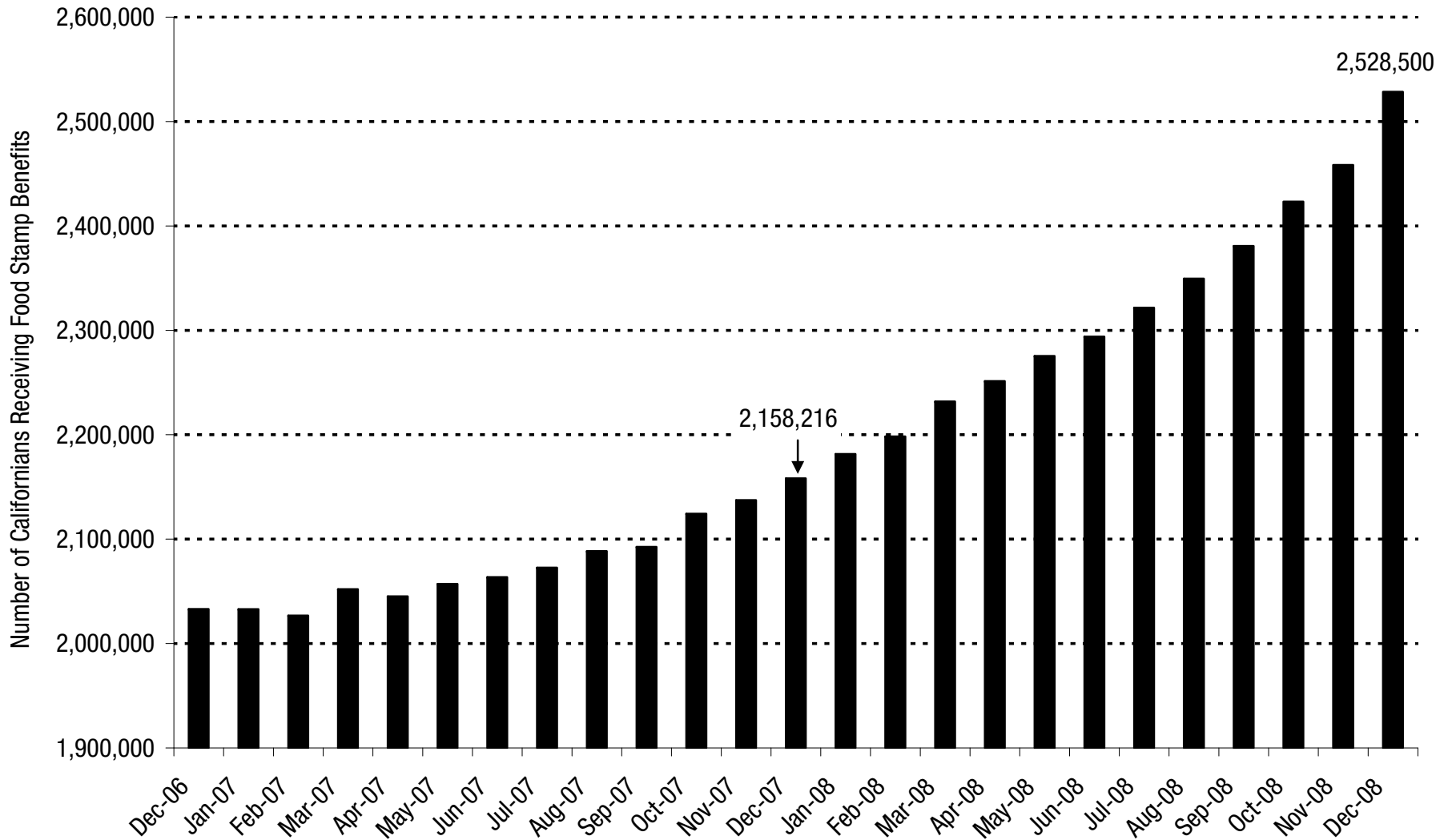


Note: Includes new and resale condominiums and single-family detached homes.  
Source: MDA DataQuick

# Demand for Services Rises as Economic Conditions Worsen

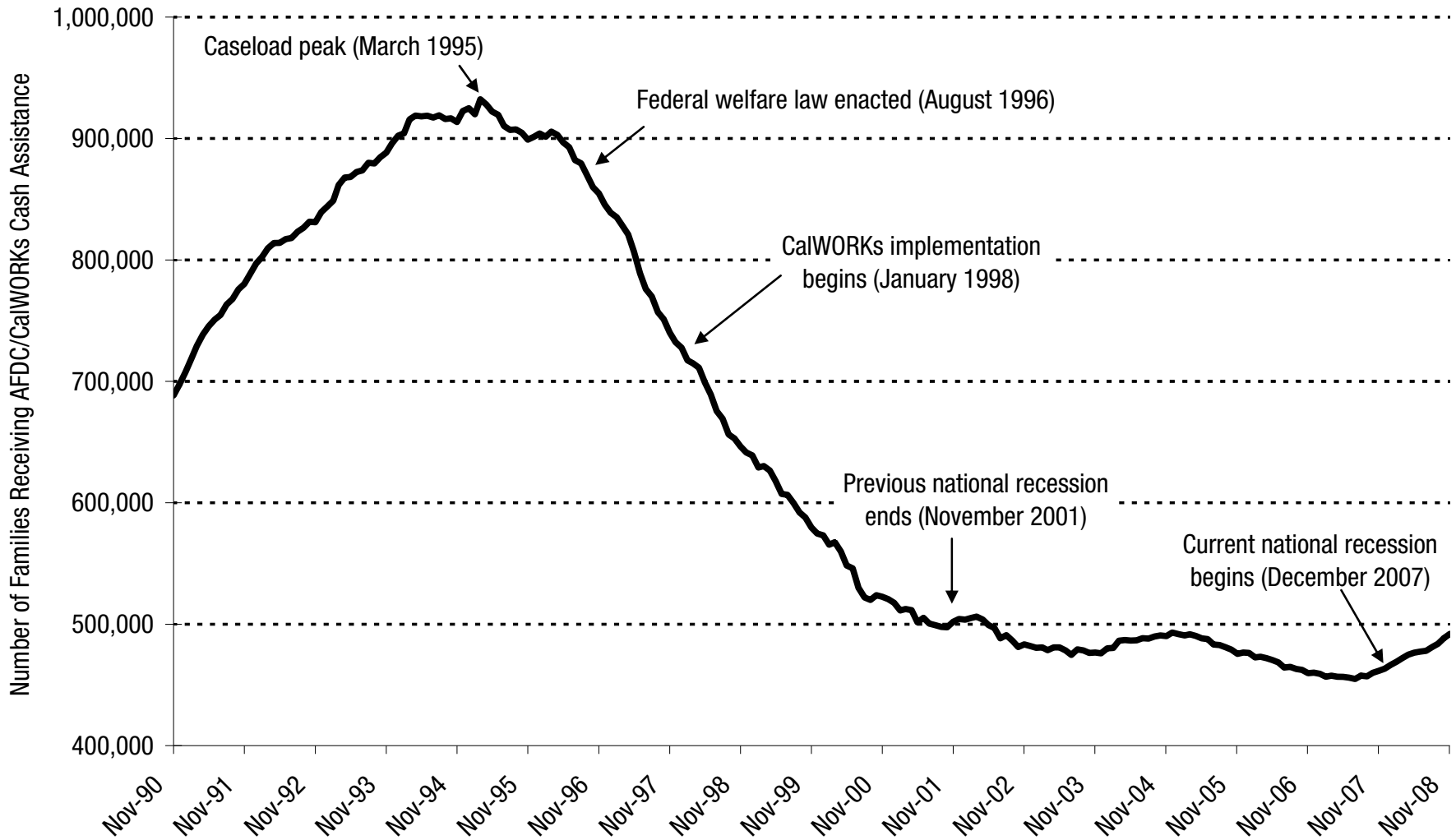
- Between December 2007 and December 2008, the number of Californians receiving food stamps increased by 17.2 percent (370,284), more than twice the increase during the prior year (6.2 percent).
- Between January 2008 and January 2009, the number of children enrolled in the Healthy Families Program increased by 5.5 percent (46,811), following an 8.3 percent increase (64,539) during the prior year.
- Between November 2007 and November 2008, the number of families receiving CalWORKs cash assistance increased by 6.6 percent (30,475), a 16-fold increase over the previous year when the number of families increased by 0.4 percent (1,935).

## The Number of Californians Receiving Food Stamp Benefits Has Risen Substantially



Source: Department of Social Services

## The Number of Families Receiving CalWORKs Cash Assistance Has Increased Since July 2007



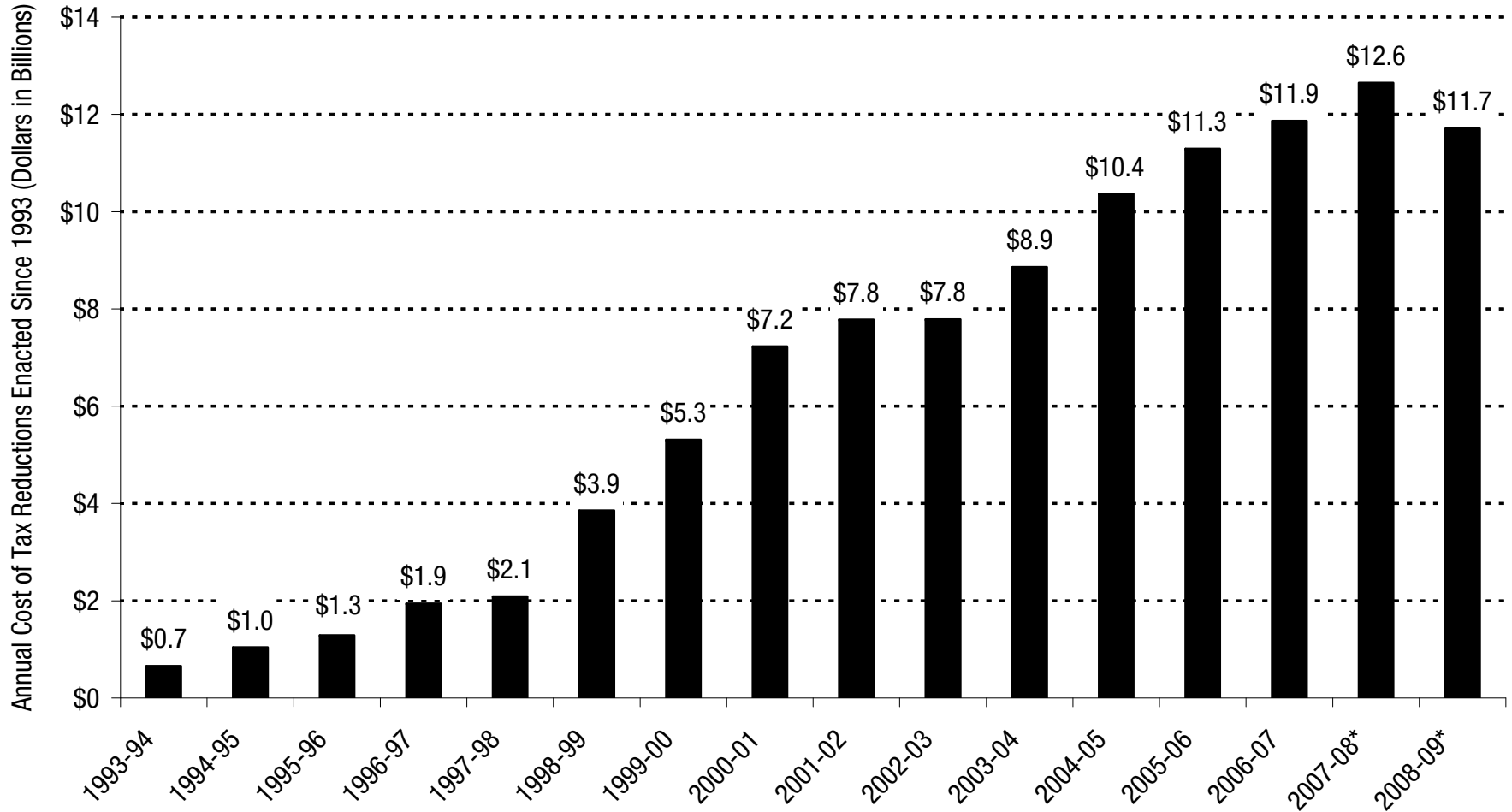
Source: Department of Social Services

# The Long-Term Roots of the Crisis

- Tax cuts enacted since 1993 cost the state nearly \$12 billion in 2008-09. The largest of these – the reduction in Vehicle License Fees – shows up in the budget as a spending increase, distorting the true balance between revenues and expenditures.
- Voter-approved bonds and earmarked spending limit policymakers' ability to balance the budget. The state's debt service costs as a percentage of spending have more than doubled since 2002-03.

## Tax Cuts Enacted Since 1993 Will Cost \$11.7 Billion in 2008-09

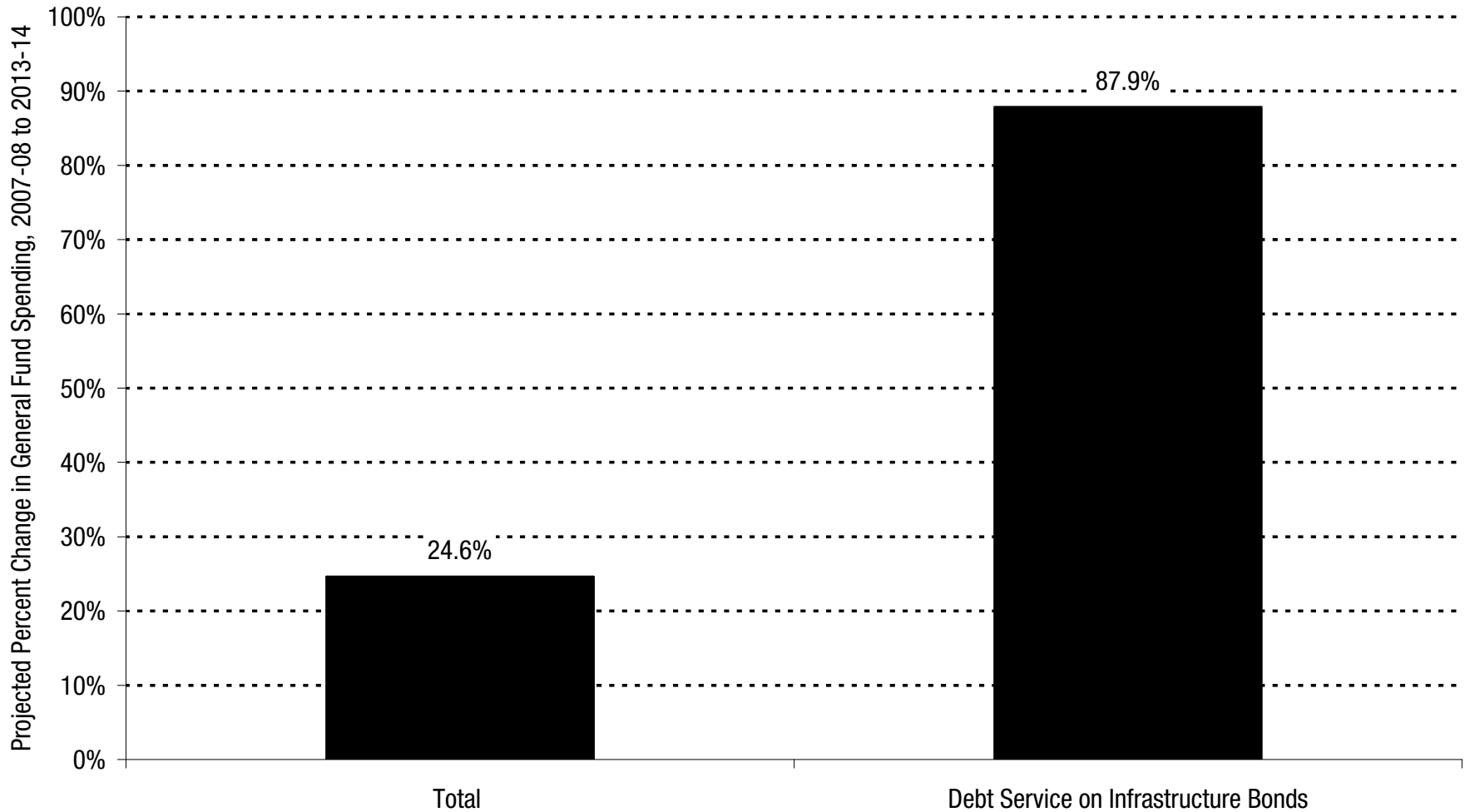
### 2008-09 Drop Reflects Suspension of Net Operating Loss Deductions



\*2007-08 and 2008-09 estimated.

Source: Assembly Revenue and Taxation Committee, Board of Equalization, Department of Finance, Franchise Tax Board, and Legislative Analyst's Office

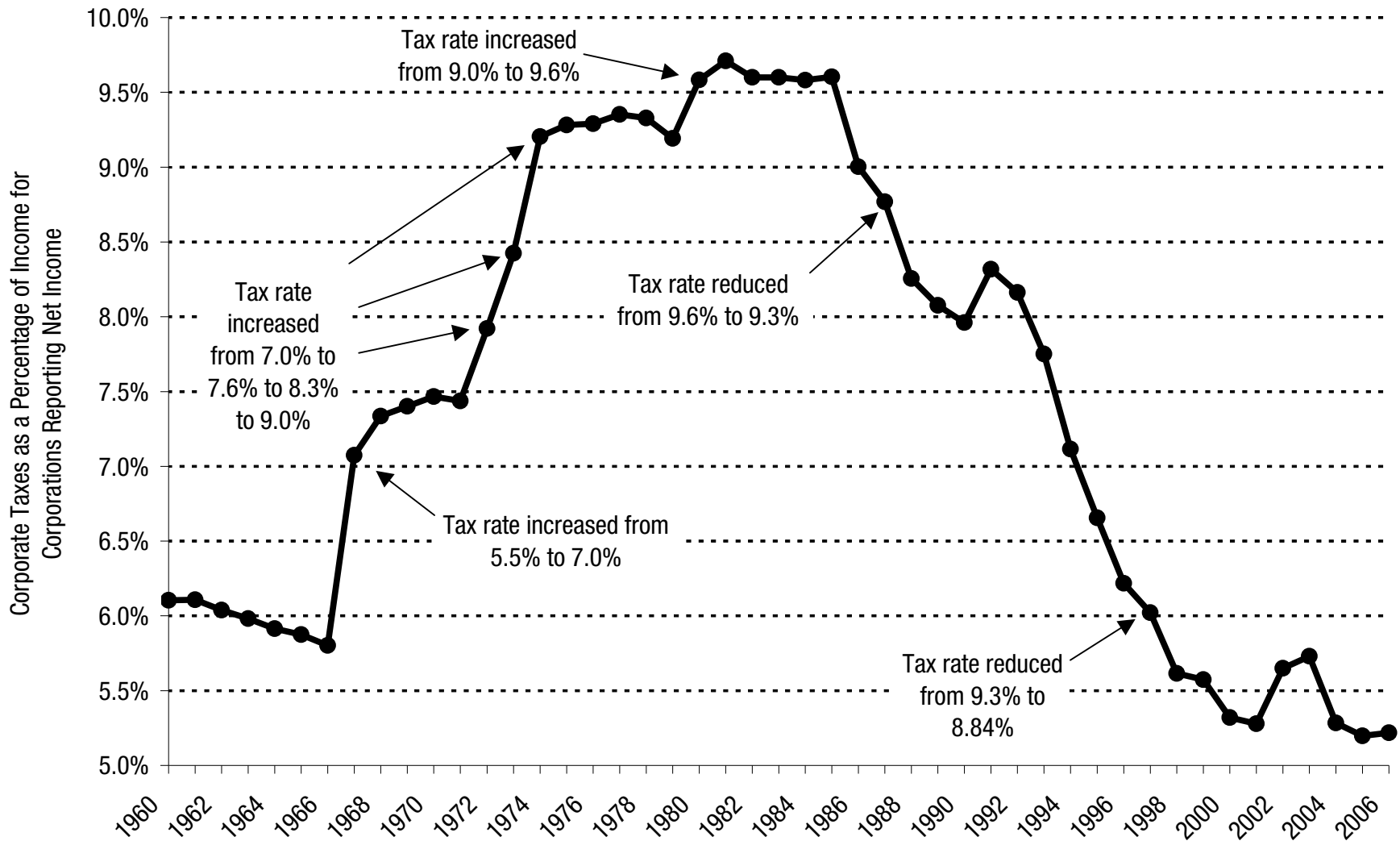
## Infrastructure Debt Service Costs Expected To Rise at More Than Three Times the Rate of Overall Spending



# California's Tax System Contributes to the Budget Gap

- Tax policies and economic trends contribute to the state's budget problems:
  - Corporate income taxes have declined over time as a share of General Fund revenues and as a share of corporate profits. If corporations had paid the same share of their profits in taxes in 2006 as they did in 1981, corporate tax collections would have been \$8.4 billion higher.
  - The yield of the state's sales tax has declined over time, reflecting the shift in economic activity from goods to services and the rise of Internet and mail-order sales that escape taxation. If taxable purchases accounted for the same share of personal income in 2007-08 as they did in 1966-67, the state would have collected an additional \$16.4 billion in sales tax revenues.
  - The phase-out of the federal estate tax will cost the state over \$1.1 billion in 2009-10. Current law reinstates the tax in 2011; however, most experts believe that the state portion of the tax will not be restored.

## The Share of Corporate Income Paid in Taxes Has Fallen by Nearly Half Since 1981



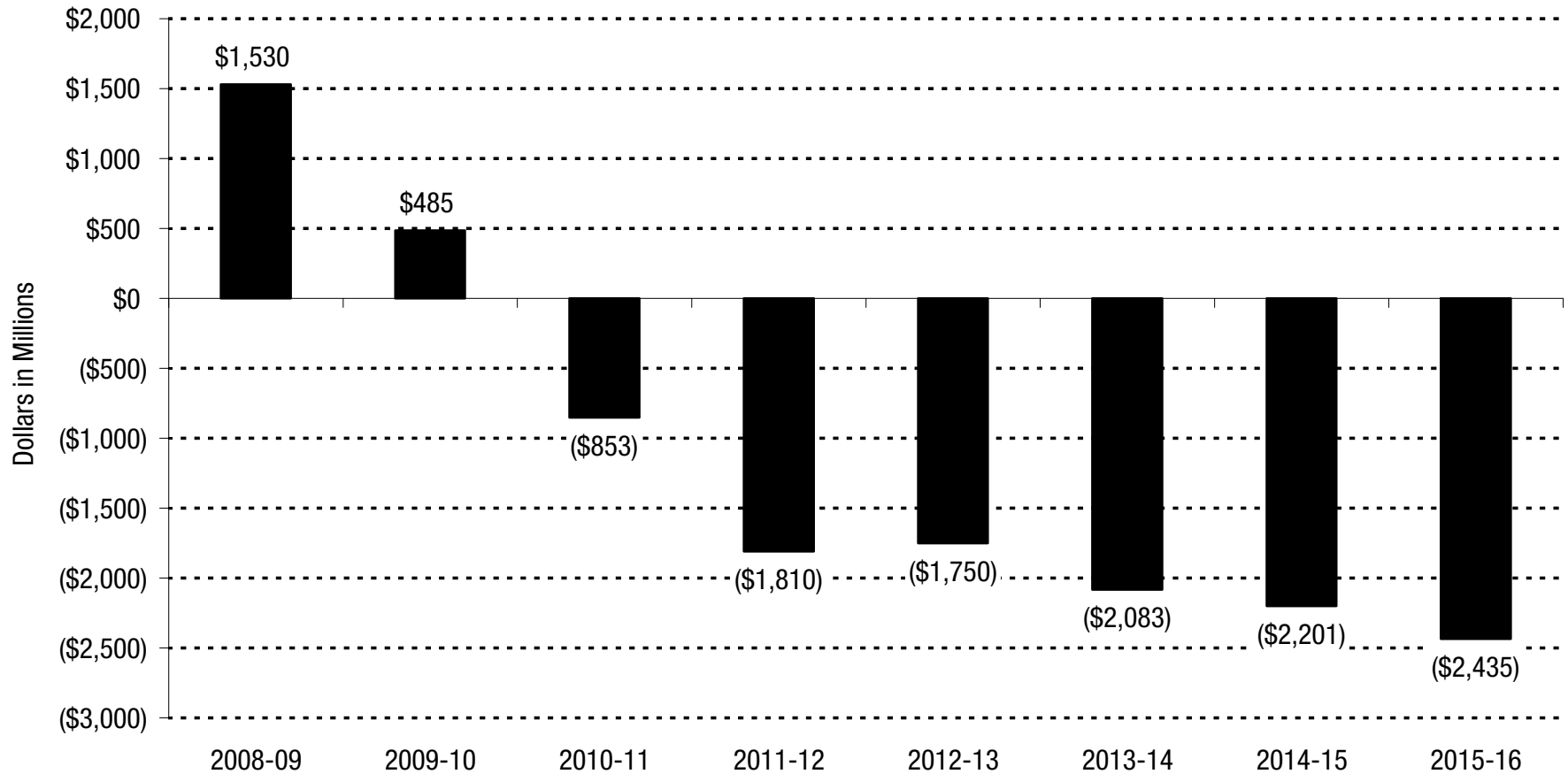
Source: Franchise Tax Board

# The 2008-09 Budget Agreement Sets the Stage for Future Problems

- Provisions in the 2008-09 and 2009-10 budget agreements will:
  - Reduce corporate tax revenues by nearly \$9 billion over the next eight years, with a loss of approximately \$2.5 billion per year thereafter.
  - Increase state education costs by nearly \$1.0 billion per year if the proposal to sell bonds backed by lottery proceeds is successful.
  - Require the state to transfer more money each year into a budget reserve, and severely limit the use of the reserve, without providing funding for the increased transfer.

# 2008 and 2009 Tax Deals Will Lose More Than \$9 Billion Over Eight Years

Losses Will Continue Permanently



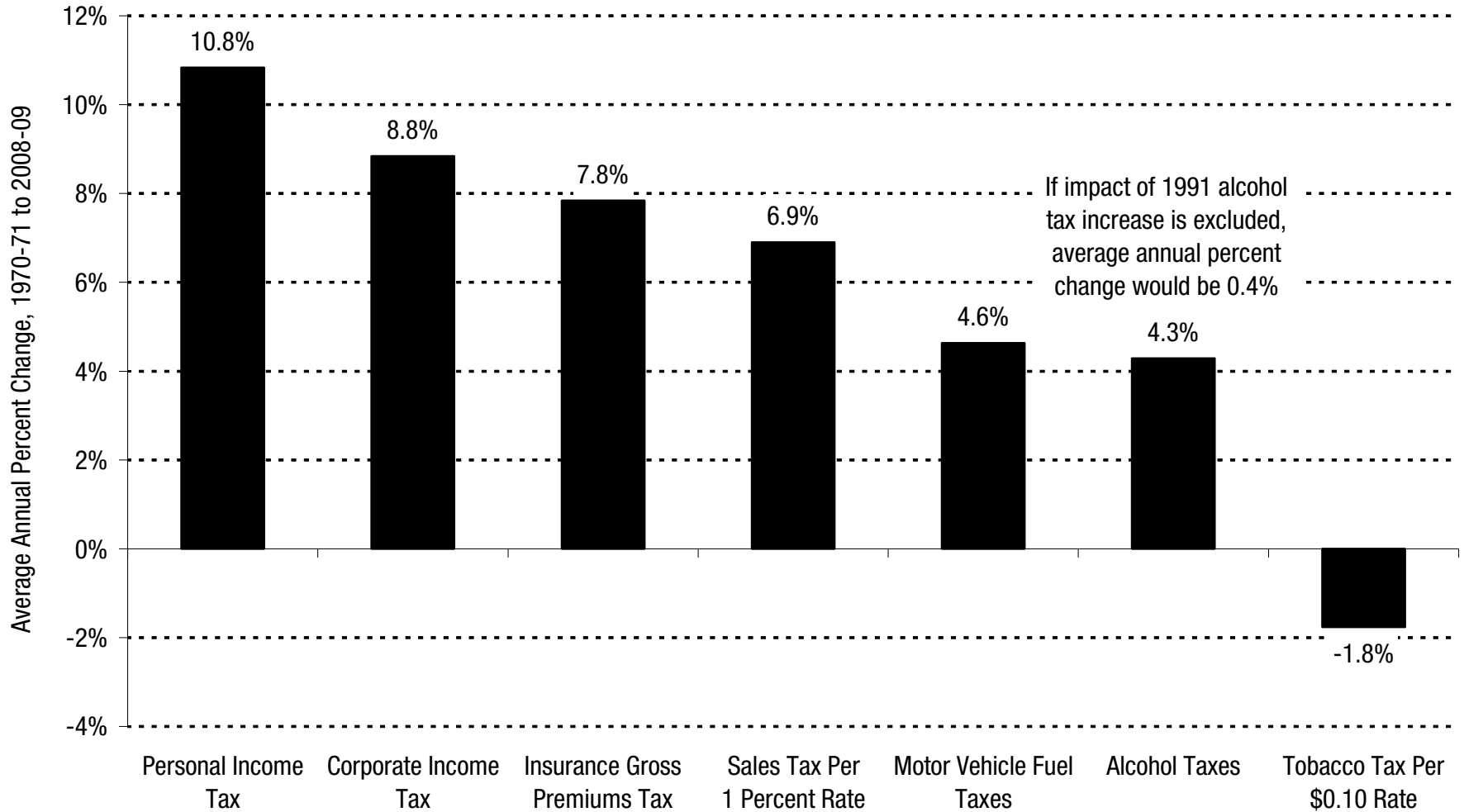
Net Cost of Business Tax Cuts in the 2008 and 2009 Budget Agreements

Note: Assumes full loss due to Single Sales Factor apportionment occurs in 2015-16.  
Source: Franchise Tax Board and Senate Floor Analysis

# What Are the Facts?

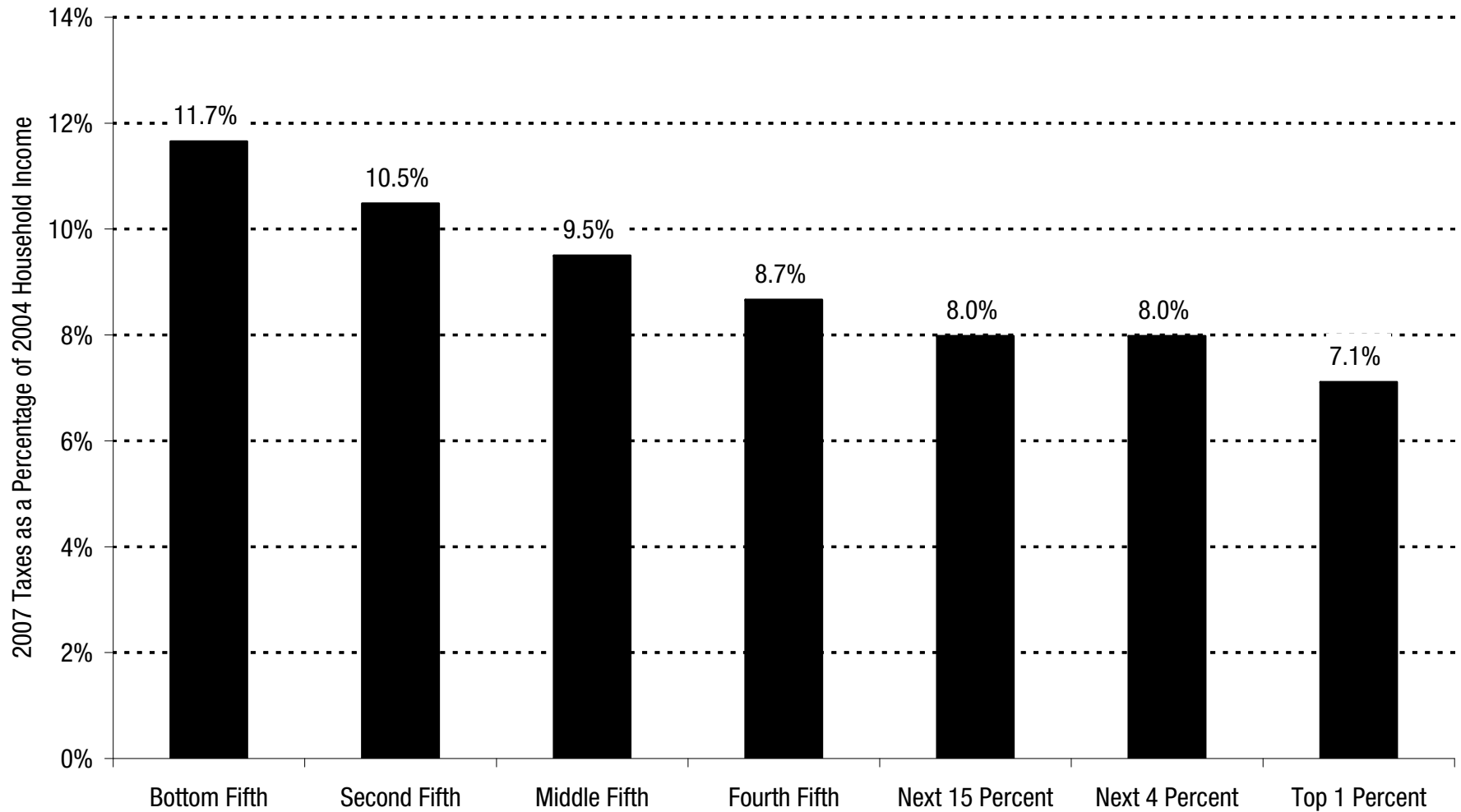
- California's budget problems are not due to a lack of growth in personal income tax revenues. In fact, the personal income tax posts the strongest growth of any of the state's major taxes.
- Low-income households pay the largest share of their income in state and local taxes. Low-income households pay a larger share of their income on sales and excise taxes, while high-income households benefit from the deductibility of state income taxes for federal tax purposes.
- California is a moderate tax state, when all state and local taxes and fees are taken into account.
- Spending has increased because California is growing, aging, and becoming more diverse, all of which have significant implications for the budget.

## Personal Income Tax Posts the Highest Average Annual Growth Rate Over Time



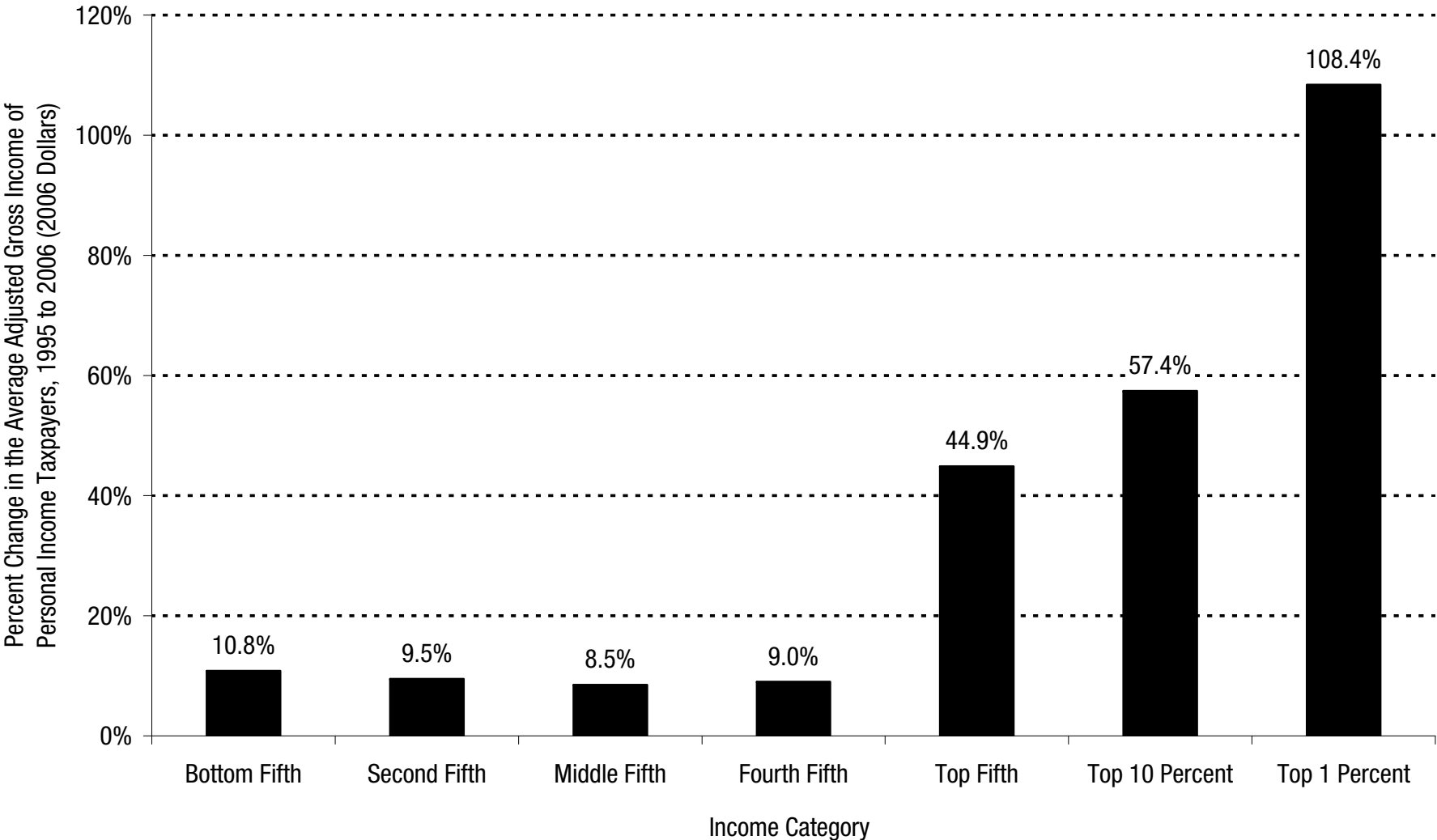
Note: 2008-09 revenues estimated.  
Source: CBP analysis of Legislative Analyst's Office data

## Lowest-Income Households Pay the Largest Share of Their Income in State and Local Taxes



Note: Includes offset for federal deductibility of state taxes.  
Source: Institute on Taxation and Economic Policy

# The Gains of High-Income Taxpayers Far Outpaced Those of Other Taxpayers, 1995 to 2006



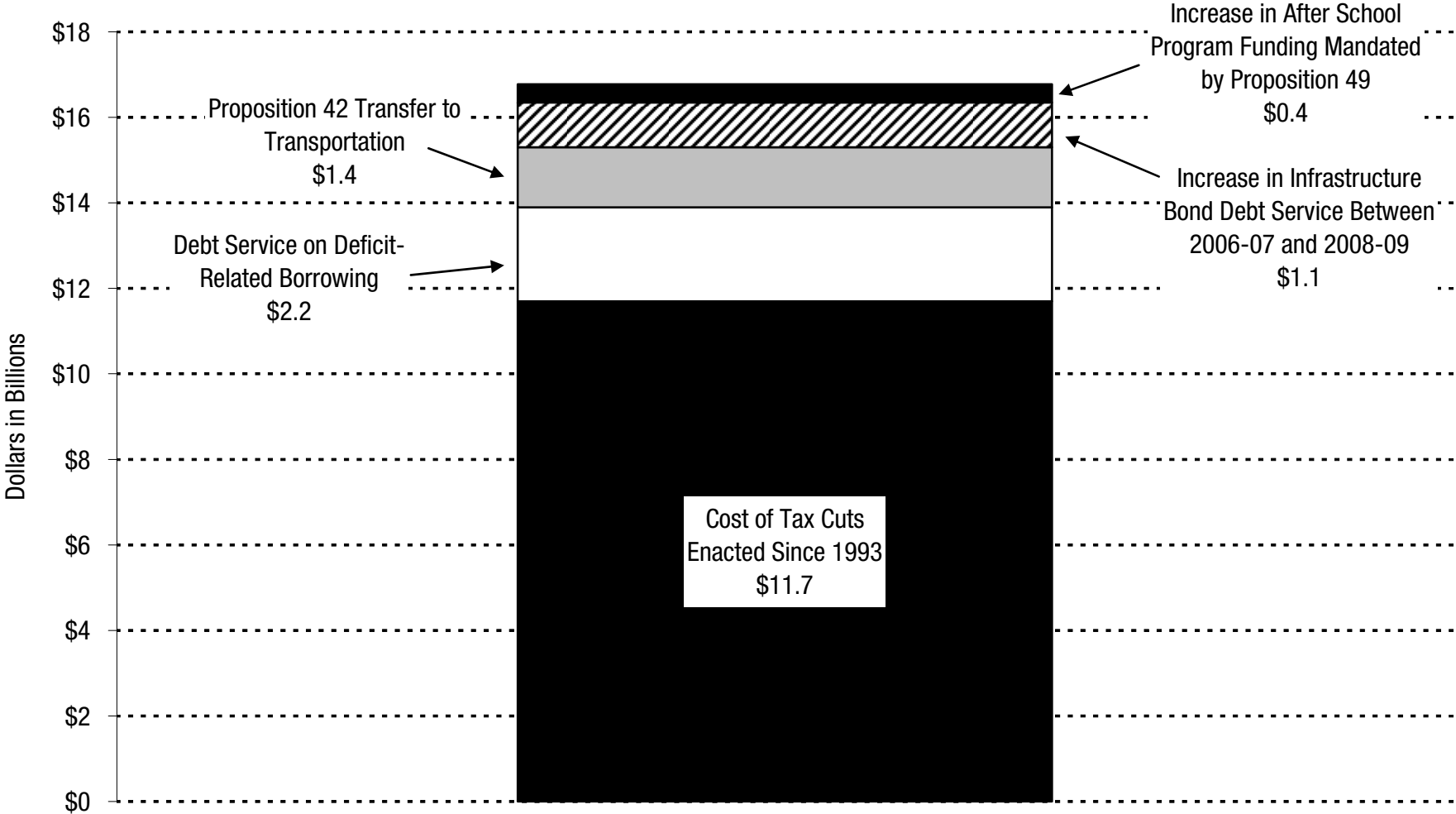
## How Does California Compare?

### Revenues as a Percentage of Personal Income

	California Rank	California	US
Total State and Local Own Source (2005-06)	17	16.96%	16.29%
Total State and Local Taxes (2005-06)	13	11.73%	11.23%
State Taxes (2006-07)	14	7.76%	6.65%
Local Taxes (2005-06)	32	3.76%	4.52%
State and Local General Sales Taxes (2005-06)	16	2.89%	2.65%
State and Local Property Tax (2005-06)	36	2.67%	3.37%
State General Sales Tax (2006-07)	23	2.21%	2.10%
State Motor Fuels Taxes (2006-07)	45	0.23%	0.32%
State Tobacco Tax (2006-07)	44	0.07%	0.14%
State Alcoholic Beverage Sales Taxes (2006-07)	39	0.02%	0.05%
State Individual Income Tax (2006-07)	4	3.61%	2.36%
State Corporate Income Tax (2006-07)	6	0.75%	0.47%

# An Alternative Way of Looking at the Deficit

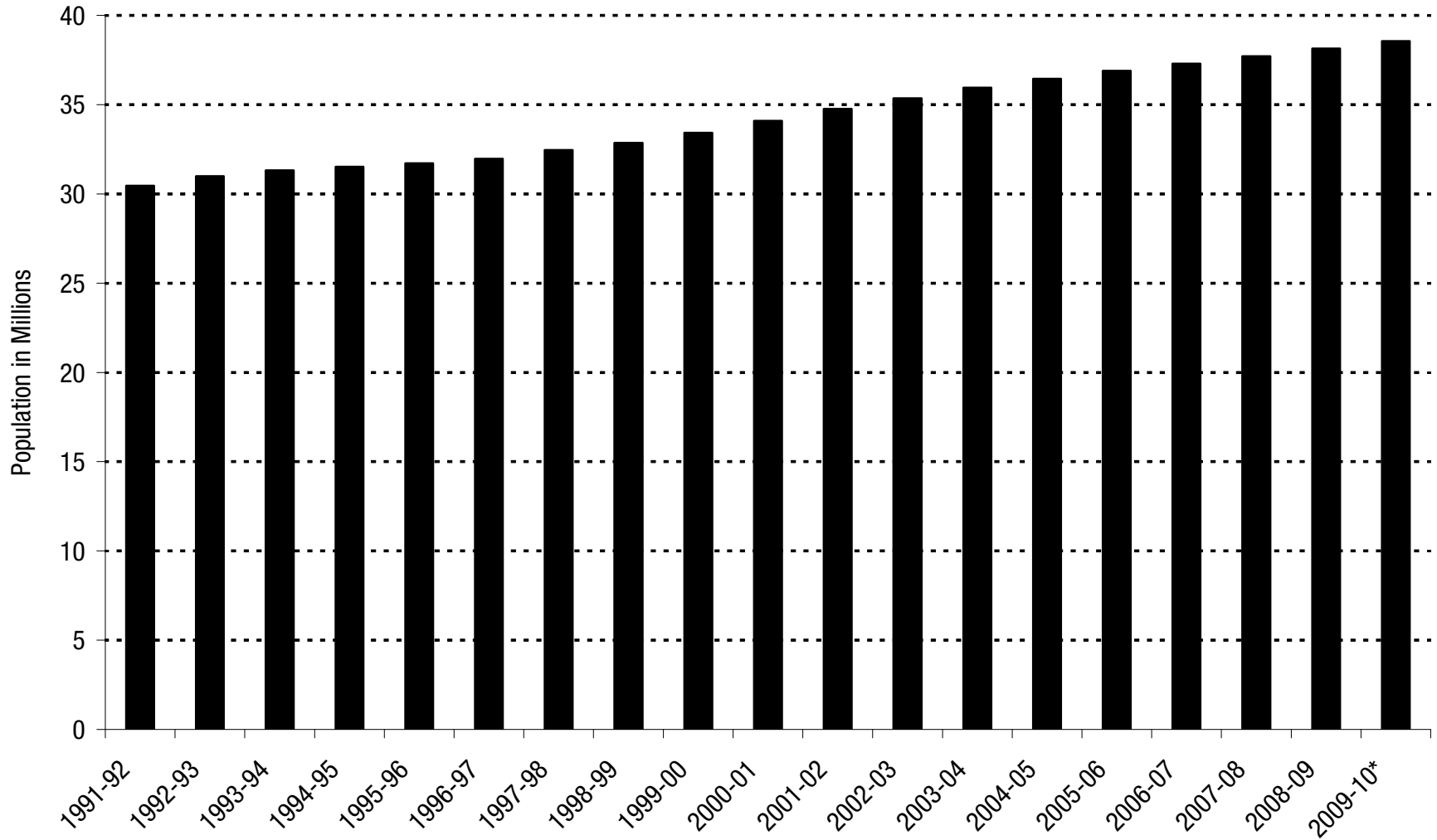
2008-09 Projected Deficit = \$14.8 Billion



# Increased Spending Largely Reflects Demographic and Economic Trends

- Population growth and inflation push the cost of basic services higher:
  - California’s population grew by 435,905 between July 2007 and July 2008. Since 2000, the state’s population has increased by 4.1 million, an increase of 11.9 percent.
  - Seniors are the fastest-growing segment of the population, increasing demands on health- and age-dependent programs.
  - Inflation pushes the cost of goods and services purchased by the state higher. The Consumer Price Index – the most common measure of inflation – rose by 25.0 percent between 2000 and 2008.

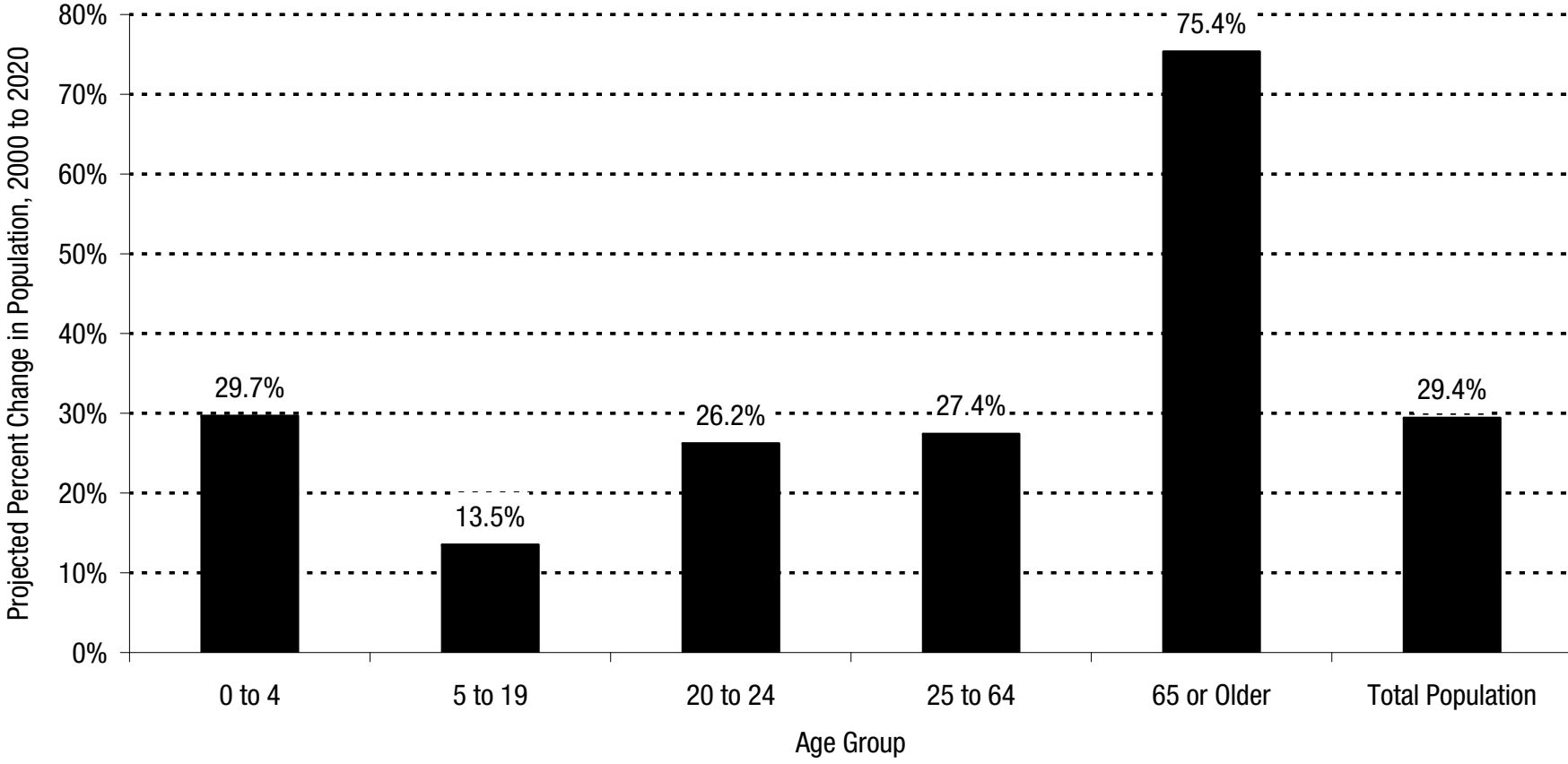
## California's Population Continues to Rise



\*2009-10 projected.

Source: Department of Finance

# Californians Age 65 or Older Are Projected To Be the Fastest Growing Age Group Between 2000 and 2020



Source: Department of Finance

# What Does the Increased Spending Pay For?

- Education for 323,857 students – the increase in K-12 enrollment between 2000 and 2008.
- Affordable health coverage for 542,813 children – the growth in Healthy Families enrollment between November 2000 and November 2008.
- Higher education for 36,679 University of California students, 65,654 California State University system students, and 43,142 community college students – the enrollment increase between 2000 and 2007.
- In-home care for 179,413 low-income seniors and people with disabilities – the increase in the In-Home Supportive Services Program caseload between 2000-01 and 2008-09.
- Adoptions of 39,119 children with special needs, the increase in the Adoption Assistance Program caseload between 2000-01 and 2008-09.

## How Does California's Spending Compare?

### Spending as a Percentage of State Personal Income, 2007-08

	California Rank	California	US
Total Expenditures	22	15.06%	13.78%
General Expenditures	25	12.81%	12.00%
Corrections	4	0.52%	0.39%
Education	29	4.70%	4.34%
Health	8	0.74%	0.49%
Highways	46	0.59%	0.87%
Hospitals	23	0.40%	0.41%
Natural Resources	12	0.31%	0.19%
Parks and Recreation	37	0.03%	0.05%
Police Protection	36	0.09%	0.11%

Source: US Bureau of Economic Analysis and US Census Bureau

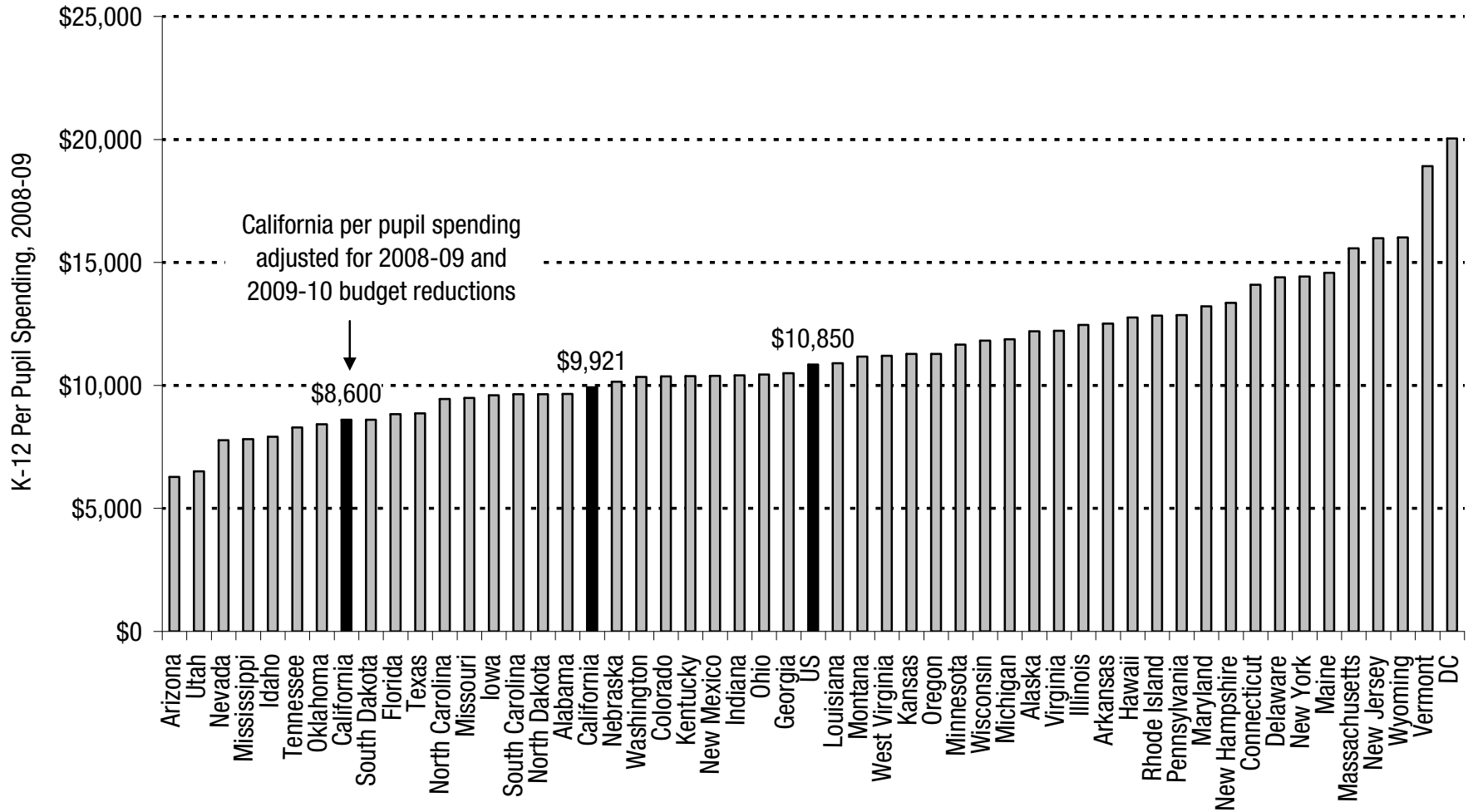
# The Budget Agreement Makes Deep Cuts to Public Education

- The budget agreement:
  - Reduces 2008-09 K-14 education spending to the minimum level required, reflecting estimates that the 2008-09 Proposition 98 guarantee has fallen to 12.7 percent (\$7.4 billion) lower than the level assumed in the 2008-09 Budget.
  - Eliminates 2009-10 K-12 education COLAs, a cut of \$2.6 billion; reduces revenue limit funding by \$268 million; reduces funding for categorical programs by \$267 million; and eliminates the High Priority Schools Program, a cut of \$114 million.
  - Proposes to replace \$891.6 million in state lottery funding for K-12 education with General Fund dollars that would be counted toward the Proposition 98 guarantee.
  - Authorizes the transfer of funds from more than 40 categorical programs to school districts' general funds through 2012-13.

# The Budget Agreement Makes Deep Cuts to Higher Education

- The budget agreement:
  - Reduces funding by \$427.6 million below the levels specified by the Higher Education Compact.
  - Makes \$264.4 million in additional unallocated funding cuts to the University of California (UC) and the California State University (CSU), a 10 percent across-the-board funding reduction.
  - Eliminates the statutory COLA for California Community College programs, cutting funding by \$39.8 million.
- The budget agreement assumes a 10 percent fee increase at the UC and CSU. The budget agreement maintains funding for the Cal Grant Program to cover the costs of UC and CSU fee increases for students who receive Cal Grant awards.

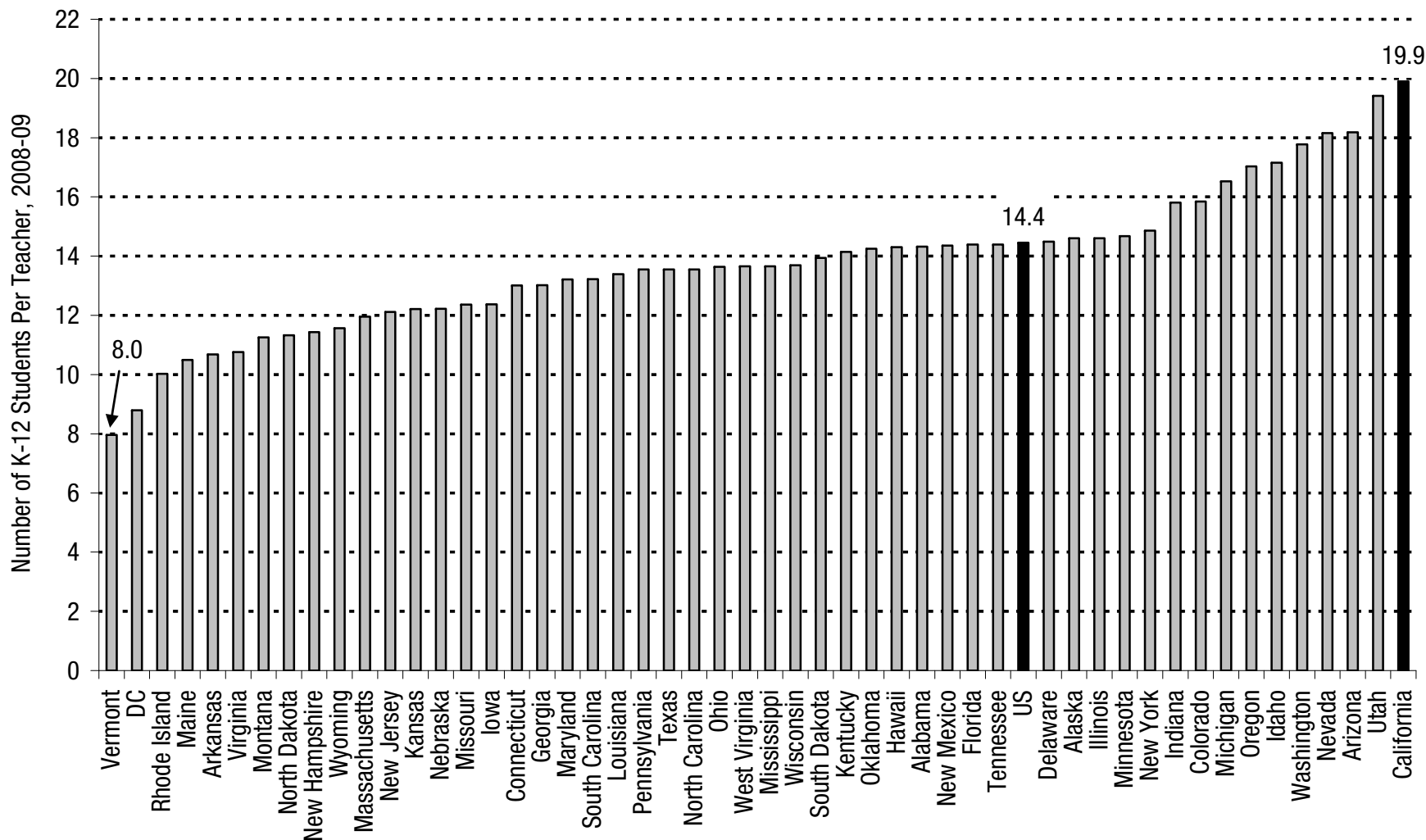
## California's K-12 Per Pupil Spending Falls Further Behind Under the 2009-10 Budget Agreement



Note: Data reflects estimates developed by state departments of education or the National Education Association.

Source: National Education Association and CBP analysis of Legislative Analyst's Office data

## California Has the Highest Number of K-12 Students Per Teacher, 2008-09



Note: Data reflect estimates developed by state departments of education or the National Education Association.

Source: National Education Association

## How Do California's Schools Compare?

	California Rank	California	US
K-12 Per Pupil Spending (2008-09)	35	\$9,921	\$10,850
K-12 Spending as a Percentage of Personal Income (2007-08)	36	3.86%	4.10%
Number of K-12 Pupils Per Teacher (2008-09)	51	19.9	14.4
K-12 Per Pupil Spending, Adjusted for Regional Cost Differences (2005-06)	47	\$7,571	\$9,963
Percentage of K-12 Pupils in Districts with Adjusted Per Pupil Spending at or Above the US Average (2005-06)	23	29.2%	42.6%
Percentage of High School Students Who Graduate With a Diploma (2004-05)	34	70.1%	70.6%

Source: Education Week, National Education Association, and US Bureau of Economic Analysis

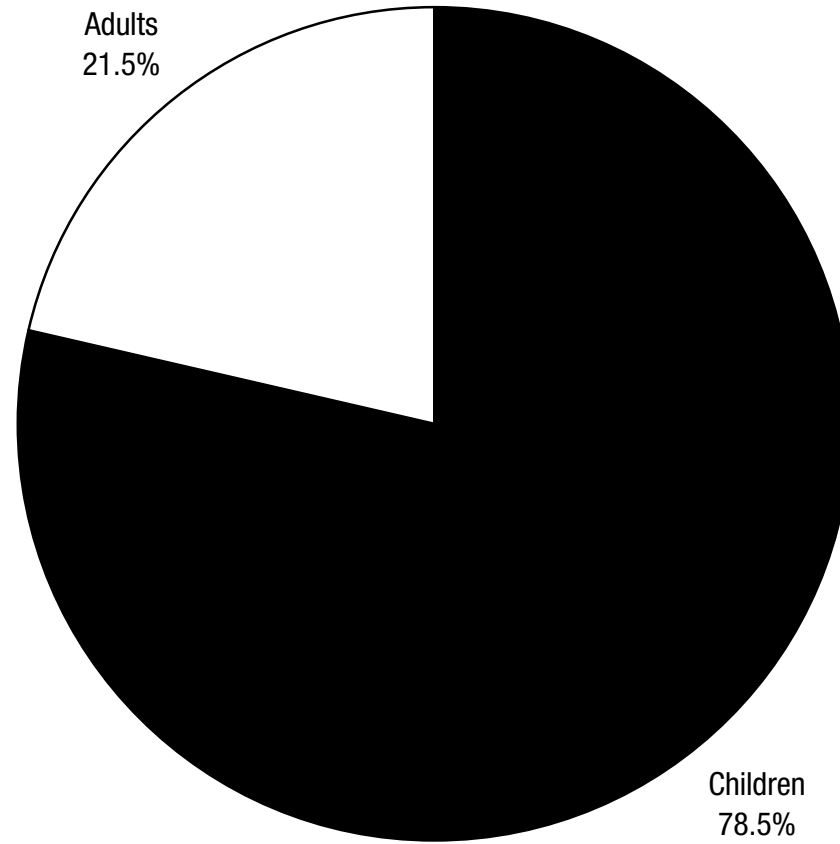
# The Budget Agreement Cuts Funding for Child Care Programs

- The budget agreement cuts child care program funding in 2008-09 by:
  - \$82 million to reflect revised caseload and other projections.
  - \$15 million to reflect a delay in implementing new Regional Market Rates (RMRs) for child care providers.
- In addition, the budget agreement includes 2009-10 savings of \$38.7 million due to reducing reimbursement rates for certain child care providers, and \$14.4 million due to revising the family fee schedule and increasing fees for nearly all families who currently pay fees for child care assistance. The budget agreement did not include the statutory revisions needed to implement these changes, which will be discussed during upcoming budget committee hearings.

# The Budget Agreement Makes Significant Cuts to CalWORKs Grants

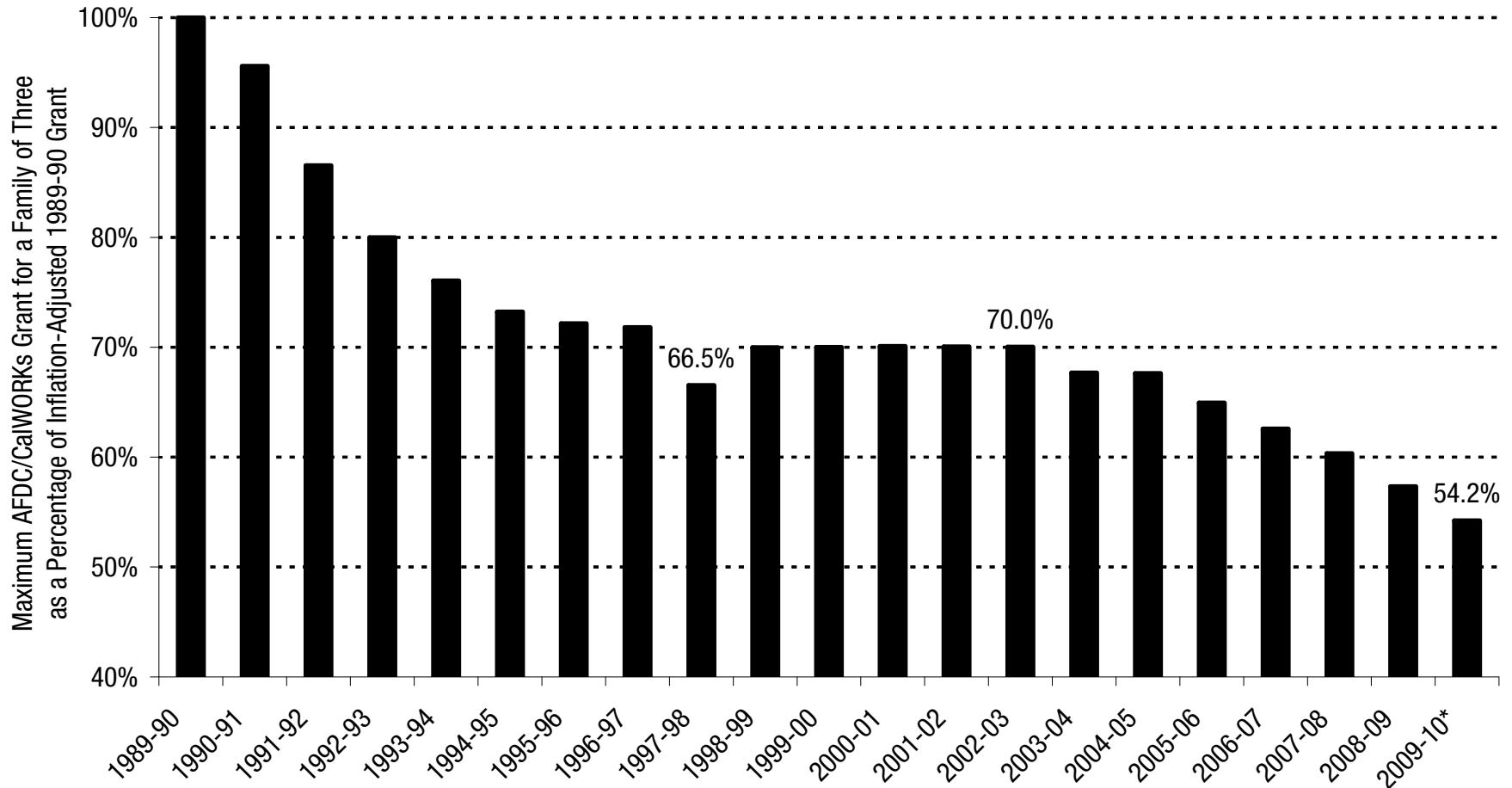
- The budget agreement:
  - Suspends the July 2009 COLA for CalWORKs grants, affecting 1.3 million recipients. The CalWORKs COLA has not been provided since July 2004.
  - Reduces grants by 4 percent effective July 1, 2009, unless the state receives sufficient funds from the federal economic recovery bill to avert this “trigger” cut. The maximum monthly grant for a family of three in high-cost counties will drop from \$723 to \$694 if this reduction is implemented.

## Nearly Four Out of Five CalWORKs Recipients Are Children



Number of Individuals Receiving CalWORKs Cash Assistance in October 2008 = 1.2 Million

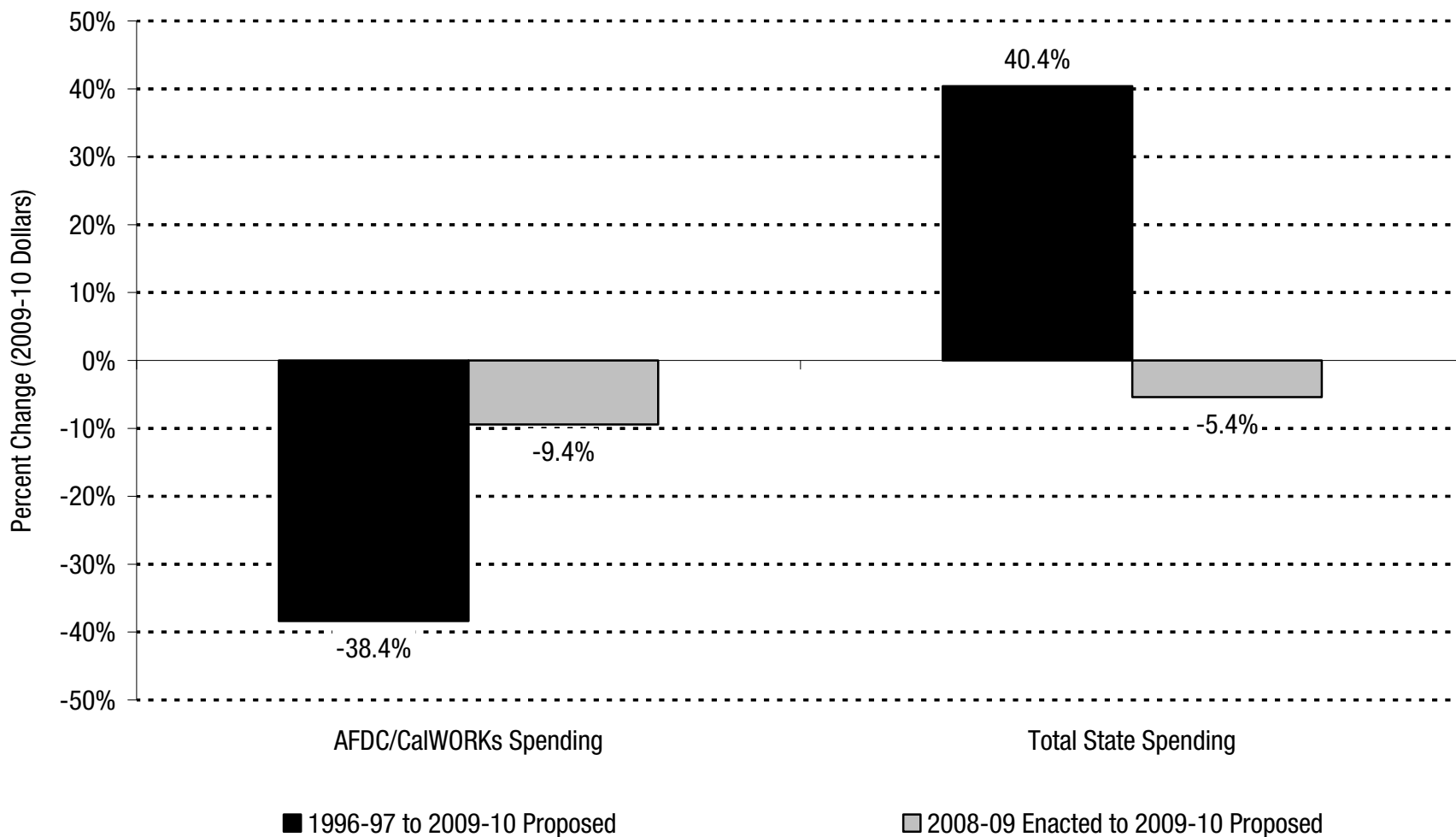
## Purchasing Power of CalWORKs Grants Will Drop Further Under the 2009-10 Budget Agreement



\* Reflects suspension of the July 2009 cost-of-living adjustment and a 4 percent grant reduction beginning on July 1, 2009. The grant reduction will not be implemented if the state receives sufficient funding from the federal economic recovery bill signed on February 17, 2009.

Source: CBP analysis of Department of Finance, Department of Social Services, and Legislative Analyst's Office data

## Welfare Spending Has Declined by More Than One-Third Since 1996-97

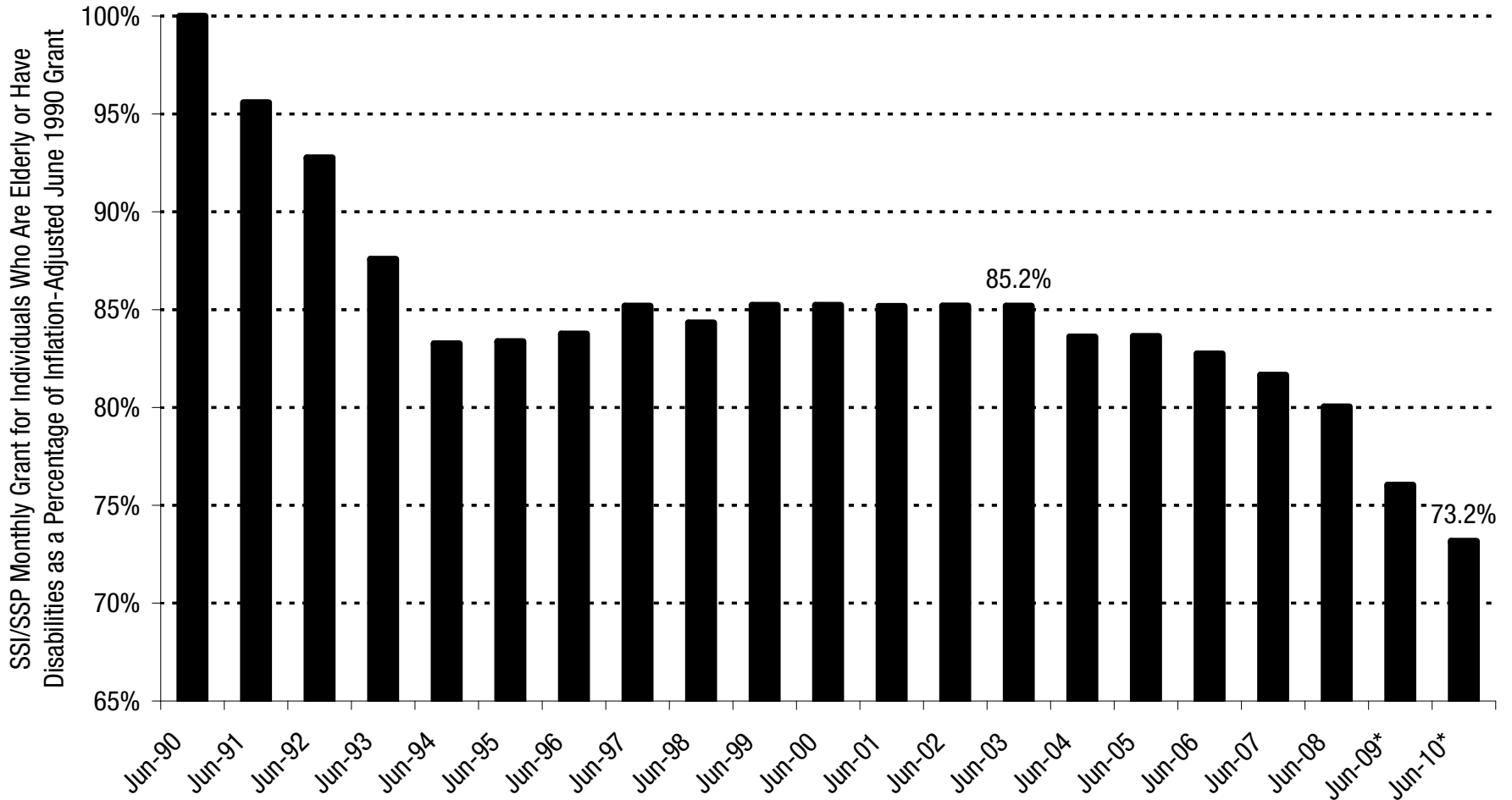


Note: AFDC/CalWORKs spending includes federal, state, and county funds. Total state spending includes federal and state funds.  
 Source: Department of Finance and Department of Social Services

# The Budget Agreement Makes Deep Cuts to SSI/SSP Grants

- The budget agreement:
  - Cuts SSI/SSP grants – effective May 1, 2009 – to the December 2008 level, affecting 1.1 million recipients. This change will reduce the maximum monthly grant for an elderly and/or disabled recipient from \$907 to \$870.
  - Cuts grants by an additional 2.3 percent effective July 1, 2009, unless the state receives sufficient funds from the federal economic recovery bill to avert this “trigger” cut. The maximum grant for individual recipients will further drop to \$850 per month if this cut is implemented.
  - Suspends the June 2010 state COLA for SSI/SSP grants.

## Purchasing Power of SSI/SSP Grants Will Decline Further Under the 2009-10 Budget Agreement



\* Reflects no pass-through of the federal 2009 cost-of-living adjustment (COLA) beginning on May 1, 2009, a 2.3 percent grant reduction beginning on July 1, 2009, and suspension of the state June 2010 COLA. The grant reduction will not be implemented if the state receives sufficient funding from the federal economic recovery bill signed on February 17, 2009.

Source: CBP analysis of Department of Finance, Department of Social Services, and Legislative Analyst's Office data

# The Budget Agreement Makes Significant Cuts to the In-Home Supportive Services (IHSS) Program

- The budget agreement:
  - Caps the state’s contribution toward the wages of IHSS workers at \$9.50 per hour plus \$0.60 per hour for benefits. Currently, the state shares in the cost of wages and benefits up to \$12.10 per hour.
  - Requires some IHSS recipients to pay a larger share of the cost of the services they receive.
  - These changes will take effect July 1, 2009, unless the state receives sufficient funds from the federal economic recovery bill to avert these “trigger” cuts.

# The Budget Agreement Cuts Funding for Additional Human Services Programs

- The budget agreement:
  - Cuts Regional Center operating costs as well as service provider payments by 3 percent for savings of \$84.8 million and imposes an unallocated reduction of \$100 million. Regional Centers coordinate services for people with developmental disabilities.
  - Does not provide COLAs to cover counties' rising costs of operating human services programs, including Adult Protective Services and Foster Care. Counties have not received COLAs for most human services programs since 2000-01.

## Still Stretched Thin: Counties Failed To Receive Nearly \$1 Billion in 2008-09 To Cover the Rising Cost of Operating Health and Human Services Programs

Dollars in Millions

	State Funds	Total State and Federal Funds
Adoptions Program	\$16.8	\$22.1
Adult Protective Services Program	\$16.5	\$20.9
CalWORKs Program*	\$250.6	\$250.6
Child Welfare Services Program	\$206.9	\$486.4
Food Stamp Program	\$19.5	\$49.0
Foster Care Program	\$8.2	\$12.5
In-Home Supportive Services Program	\$24.8	\$59.6
Medi-Cal Program**	\$32.3	\$64.6
<b>TOTAL</b>	<b>\$575.6</b>	<b>\$965.7</b>

\* State and federal funds are used interchangeably in the CalWORKs Program.

\*\* Prior to 2008-09, the state had provided funding for counties' Medi-Cal operating-cost increases every year since 2003-04.

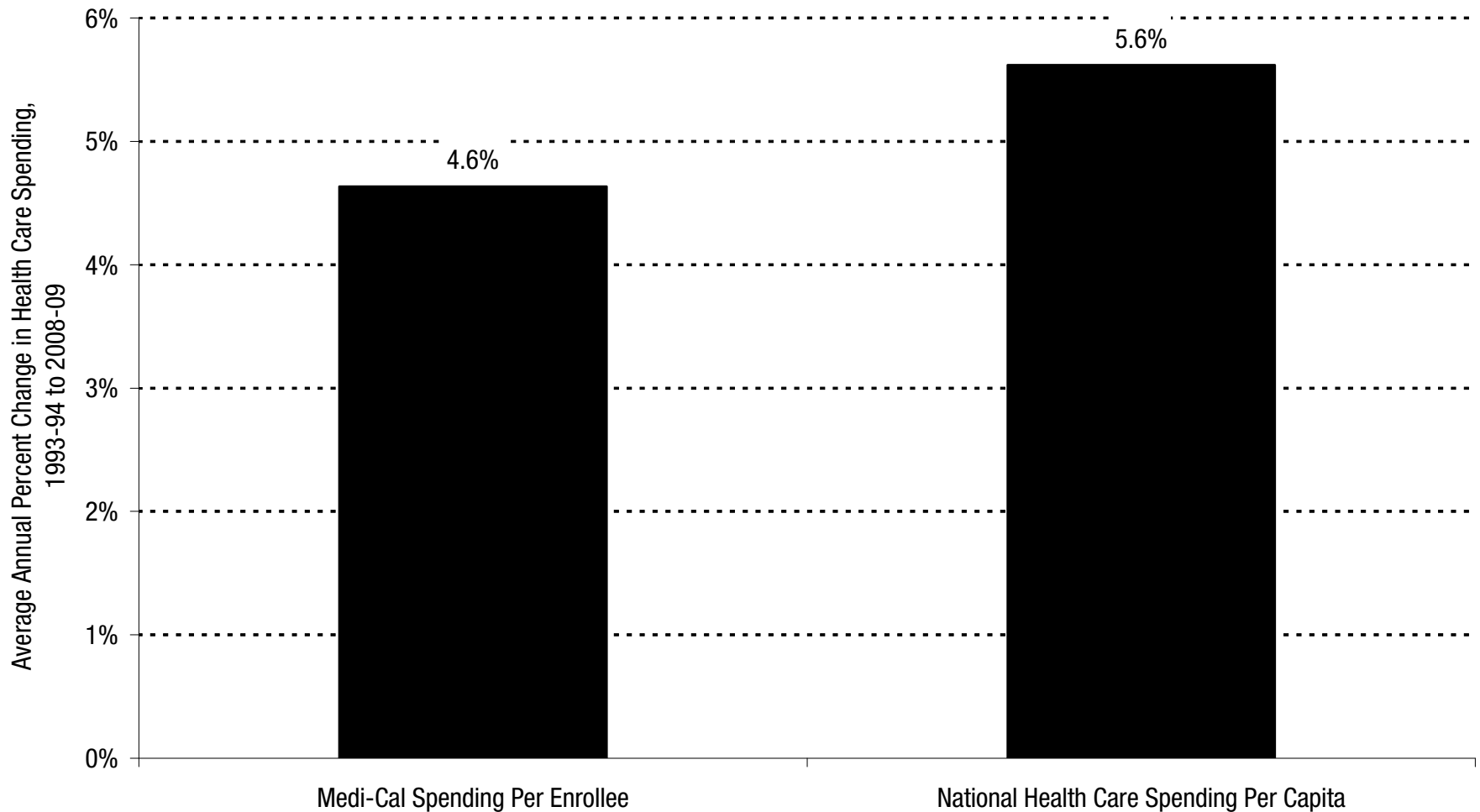
Note: Except for the Medi-Cal Program, figures reflect amounts that counties would have received in 2008-09 if the state had consistently provided funding for counties' operating-cost increases every year since 2000-01.

Source: County Welfare Directors Association of California and Department of Health Care Services

# The Budget Agreement Makes Significant Cuts to Medi-Cal

- The budget agreement eliminates dental and eight other Medi-Cal services for adults and reduces reimbursement rates for public hospitals by 10 percent for combined savings of \$183.6 million.
  - These reductions will be averted if the state receives sufficient funds from the federal economic recovery bill to “trigger off” these cuts.
- In addition, the budget agreement eliminates the COLA for county operation of the Medi-Cal Program in 2009-10, a \$24.7 million reduction.

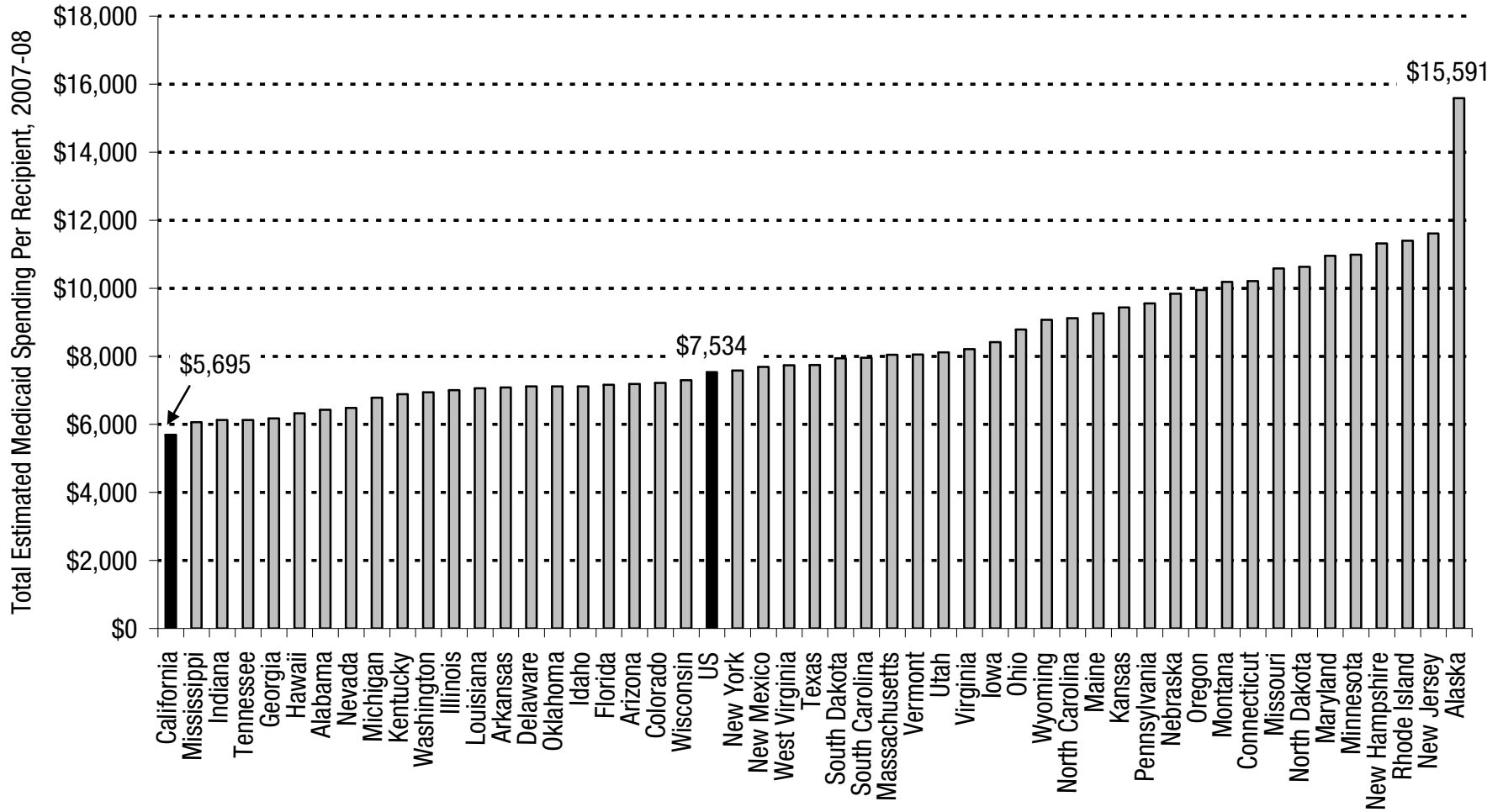
## National Health Care Spending Has Increased More Rapidly Than Medi-Cal Spending Since the Mid-1990s



Note: 2008-09 spending is projected.

Source: Department of Health Care Services and US Centers for Medicare & Medicaid Services

## California Spends Less Than Any Other State Per Medi-Cal Enrollee



Note: Number of recipients is for December 2007.

Source: Kaiser Family Foundation unpublished data and National Association of State Budget Officers

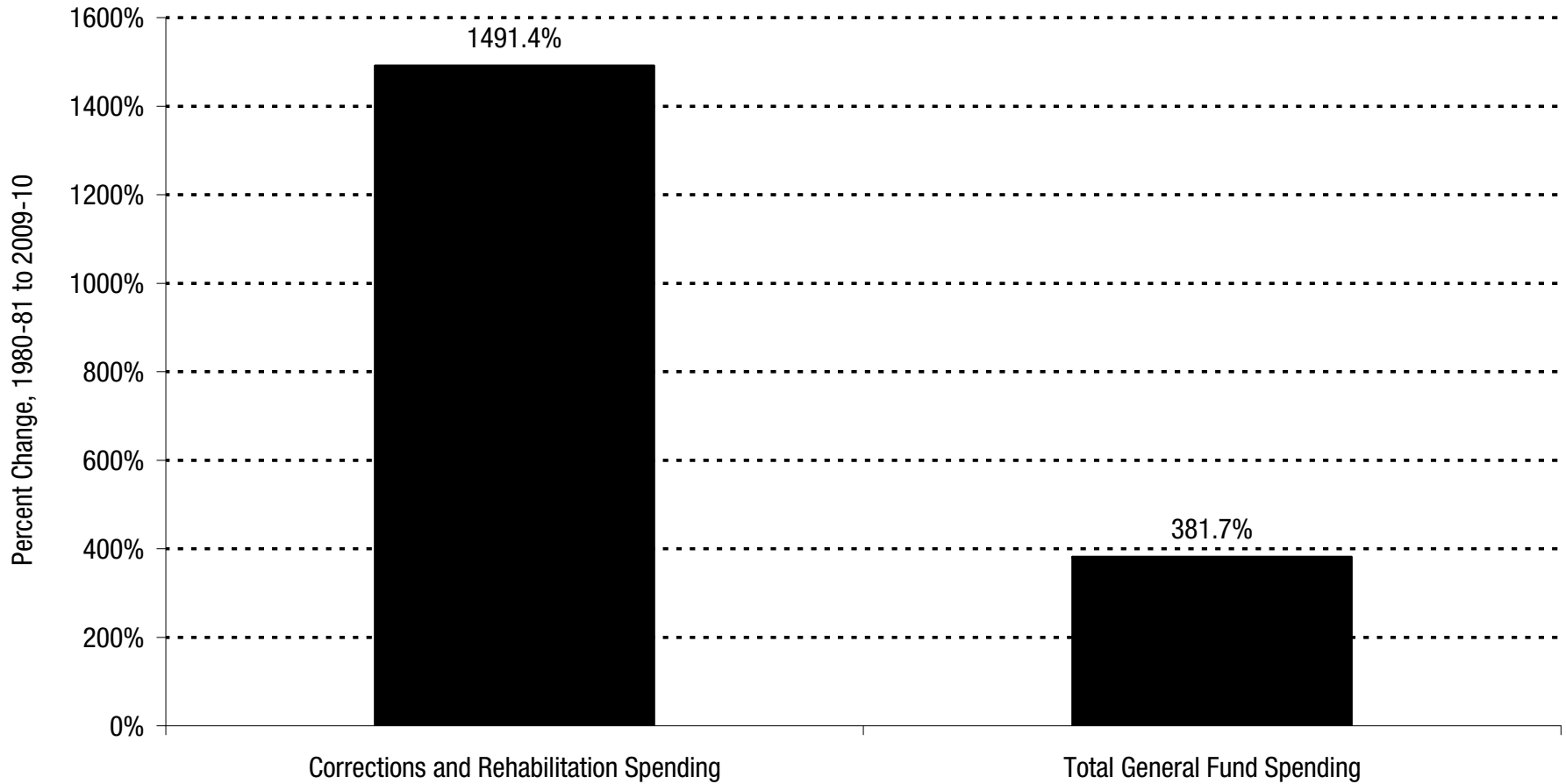
# The Budget Agreement Proposes to Shift Funding From Programs Funded by Propositions 10 and 63

- The budget agreement diverts:
  - State and county First 5 funds raised by Proposition 10 of 1998 to support state programs for children for General Fund savings of up to \$608 million in 2009-10 and annual savings of \$268 million through 2013-14.
  - Funds raised by Proposition 63 of 2004 to support the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program for savings of \$226.7 million in 2009-10 and up to \$234 million in 2010-11.
- These proposals will appear as Propositions 1D and 1E, respectively, on the May 19, 2009 special election ballot.

# The Budget Agreement Reduces Corrections Spending

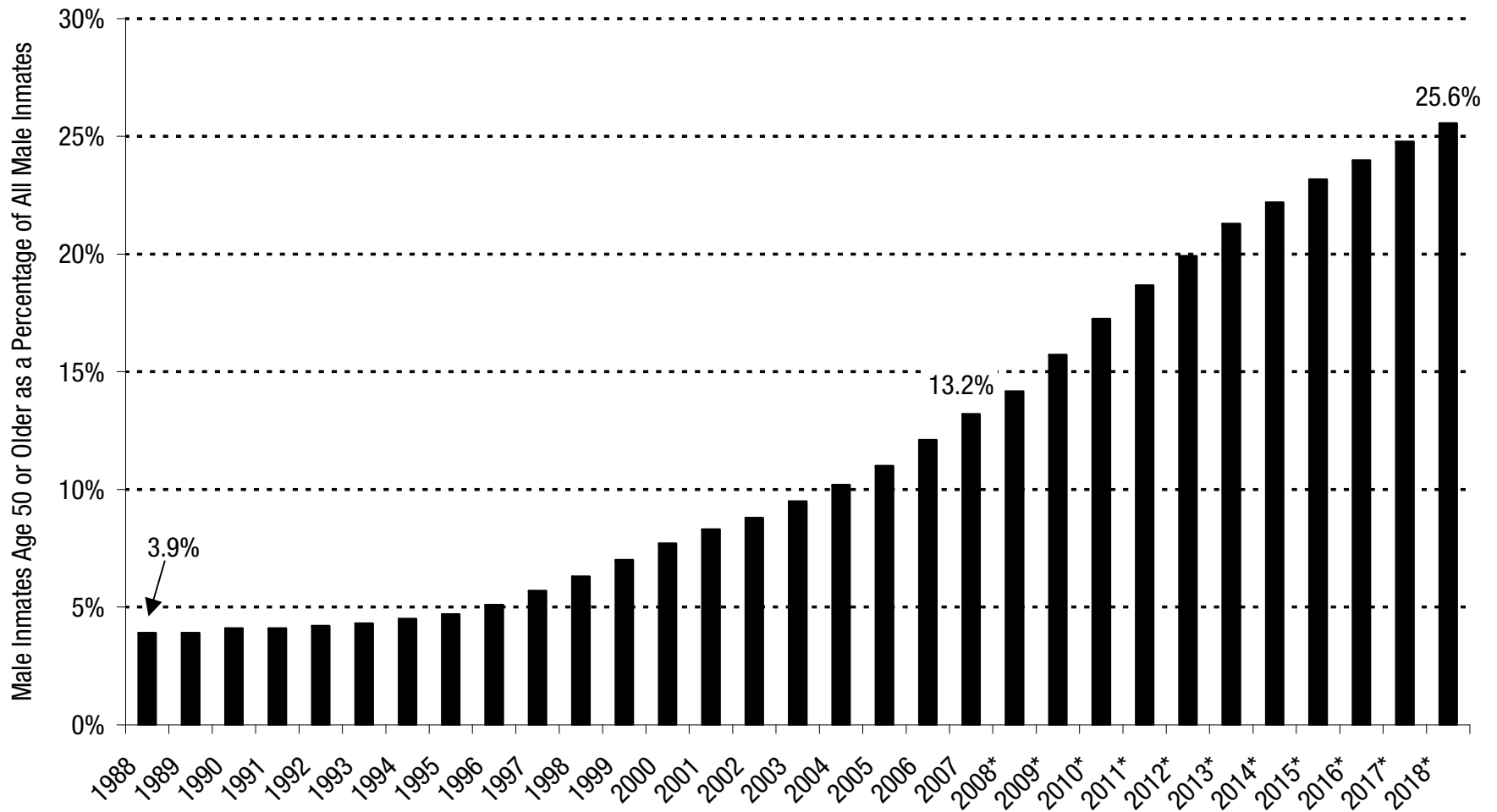
- The budget agreement:
  - Reduces by 10 percent support for the federal-court-appointed receiver’s inmate medical services budget for savings of \$180.08 million in 2009-10.
  - Eliminates funding for operating expenses and a proposed increase for overtime pay for combined savings of \$128.5 million.
- In addition, the Governor vetoed \$400 million from the budget of the Department of Corrections and Rehabilitation (CDCR) to reflect savings attributable to “various reforms and actions” that the CDCR will implement.

## Corrections Spending Has Grown at Nearly Four Times the Rate of General Fund Spending as a Whole Since 1980-81



Note: 2009-10 spending proposed.  
Source: Department of Finance

## The Share of Male Inmates Age 50 or Older Is Projected To Continue Rising Sharply



\* Projected.

Note: Data reflect only felons.

Source: Department of Corrections and Rehabilitation

# The Budget Agreement Reduces State Employees' Compensation

- The budget agreement assumes changes in state employee compensation and overtime policies that will generate savings of \$1.167 billion in 2008-09 and 2009-10 combined.
- The majority of these savings (\$1.035 billion) reflects the implementation of one or two furlough days each month for state employees.
- In addition, the budget agreement assumes elimination of two state holidays and “premium pay” for hours worked on the remaining state holidays, and changes the method for calculating overtime pay.

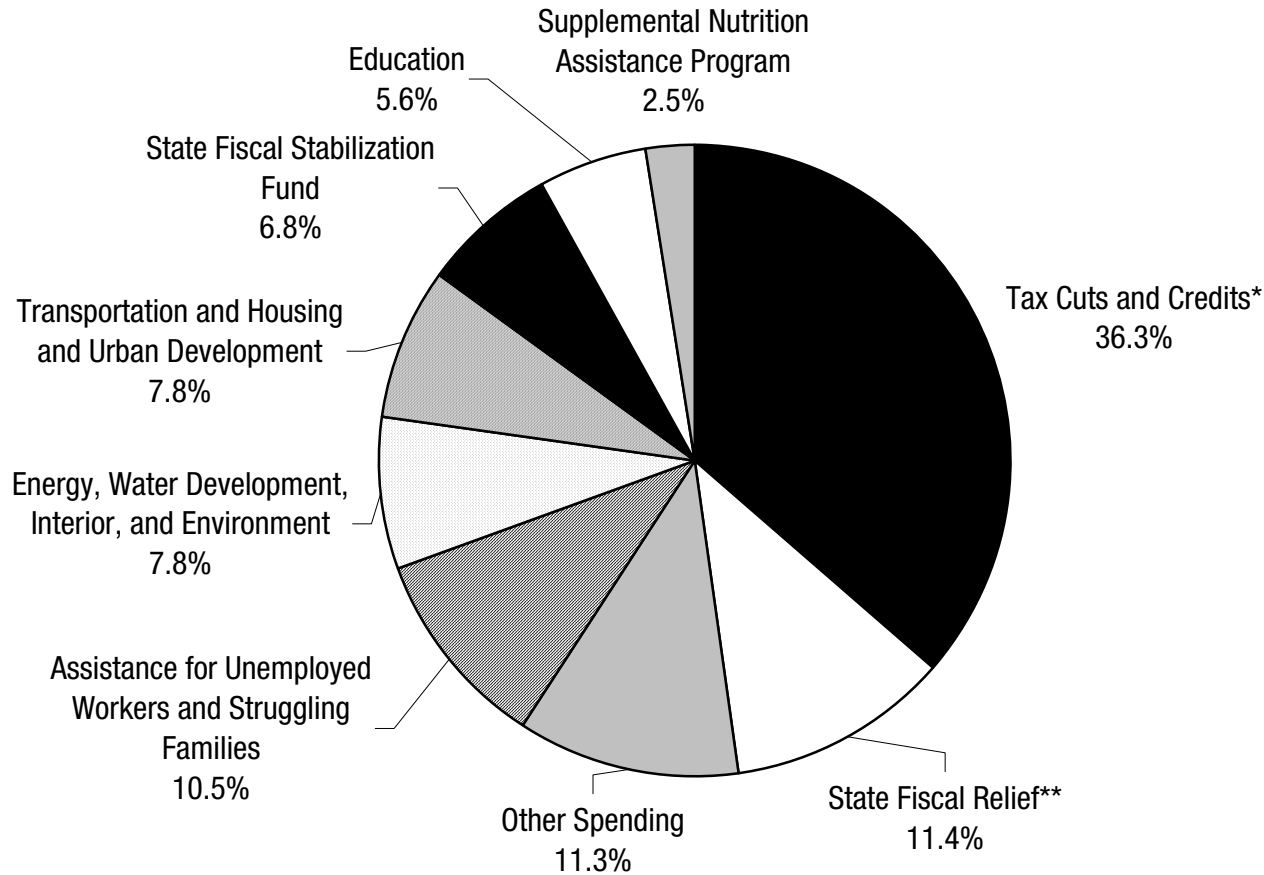
# The Governor Vetoed \$1.3 Billion in Spending

- The Governor vetoed \$1.3 billion in total spending, including \$957 million of General Fund expenditures. Significant vetoes include:
  - \$255.0 million each in funding from the UC and CSU systems. Budget documents state that these amounts would be replaced by an equivalent amount of funds from the federal economic recovery bill.
  - Reductions in the budgets of the state’s Constitutional Officers.
  - A \$400 million unallocated reduction from the budget of the Department of Corrections and Rehabilitation.

# California Will Receive Billions in New Federal Funding

- On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act (ARRA) of 2009, which is designed to boost the economy through a \$787 billion package of spending and tax measures.
- Estimates suggest that California and Californians will receive more than \$50 billion in ARRA funds for a range of purposes, including unemployment insurance benefits, tax-related benefits for working families, education, infrastructure, and housing.
- Some of the ARRA's measures will provide states with fiscal relief. For example, increased federal funding for Medicaid and a new State Fiscal Stabilization Fund will provide California with a total of \$17.2 billion, much of which can be used to help California avert additional cuts, tax increases, or borrowing.
- However, California will lose an estimated \$3.7 billion in federal funding for Medicaid if policymakers do not reinstate annual eligibility renewals for children in Medi-Cal and ensure that this change takes effect before July 1, 2009. California will lose even more federal funds the longer it delays making this change.

# Allocation of Spending in the American Recovery and Reinvestment Act of 2009



Total Expenditures in H.R. 1 as Enacted = \$787.2 Billion

\* Includes revenue impact of certain direct spending provisions.

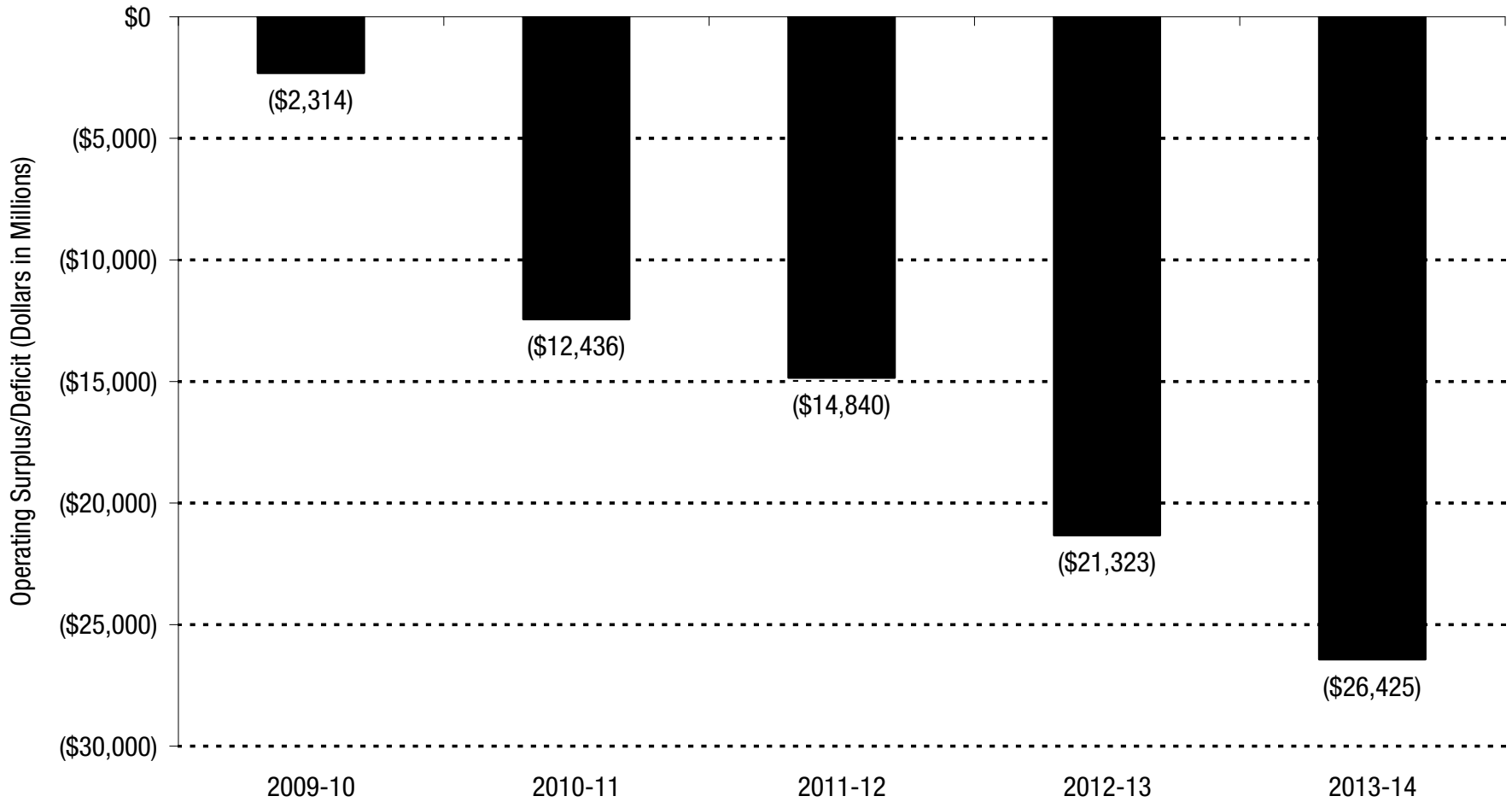
\*\* A temporary increase in federal funding for states' Medicaid programs makes up nearly all of the spending in this category.

Source: Congressional Budget Office

# At the End of the Day

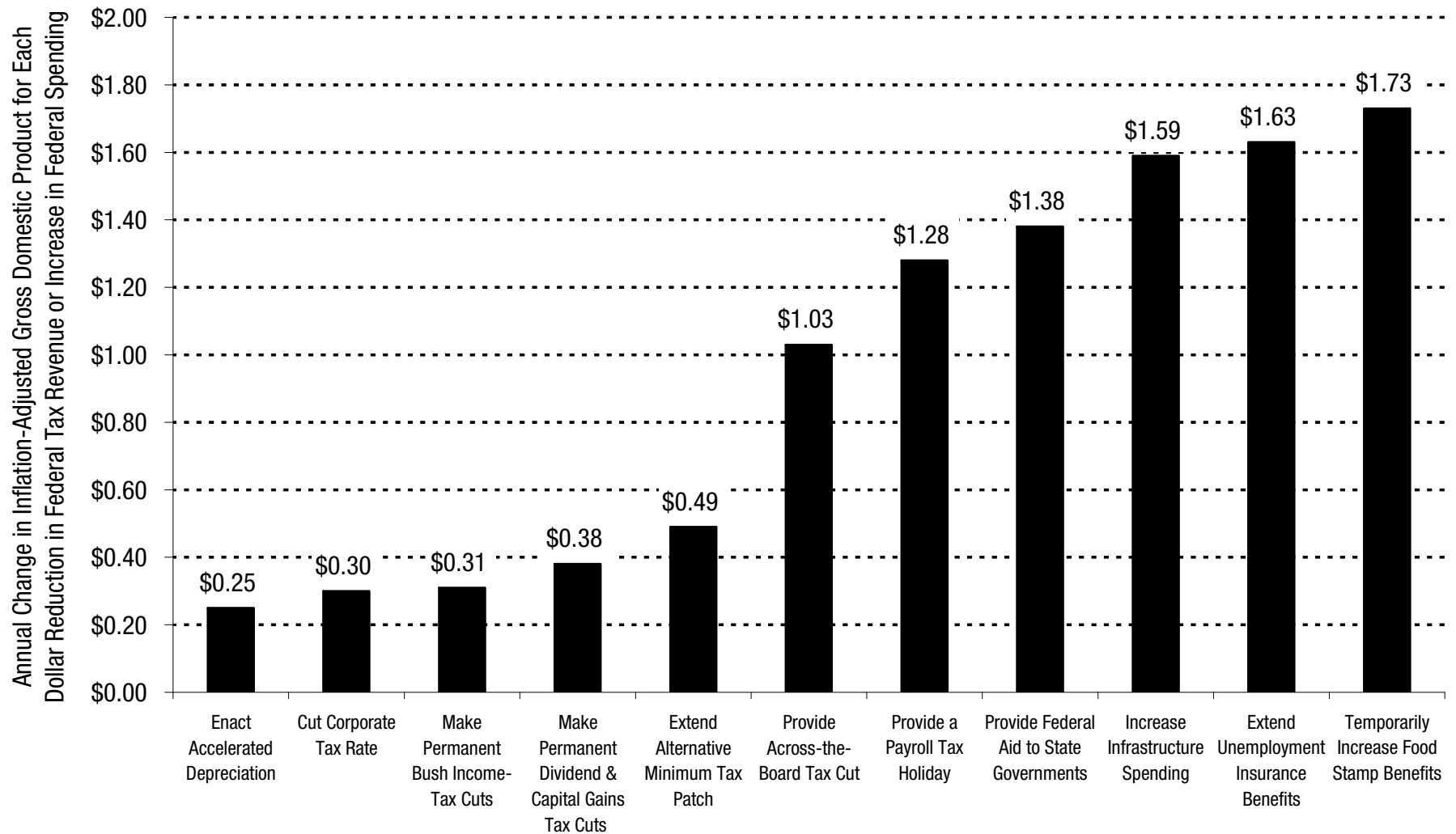
- There is no easy way out of the budget crisis. Bridging the budget gap requires a combination of carefully targeted tax increases and spending reductions.
- Funding from the federal economic recovery package will help bridge the gap, but difficult choices will remain.
- California is the only state in the nation to require more than a majority of its legislature to approve both a budget and any tax increase – a factor that severely affects efforts to reach agreement on a lasting solution to the budget crisis.

## Significant Budget Shortfalls Are Expected To Continue Regardless of the Outcome of the May Election



Note: Assumes passage of Propositions 1A through 1F.  
Source: Legislative Analyst's Office

## Federal Spending on Unemployment Insurance and Food Stamp Benefits Has the Biggest “Bang for the Buck”



## California Is the Only State To Require a Supermajority Vote To Pass Both a Budget and Any State Tax Increase



Note: Arkansas, Florida, and Michigan require a supermajority vote for certain taxes.  
Source: National Conference of State Legislatures